

# Nation's Business<sup>®</sup>

A U.S. Chamber of Commerce Publication

September 1984 • \$2.25

## ***FRANCHISE BOOM***

***"I Want To Be My Own Boss"***

**How Automation Is Making  
Offices More Efficient**

**The Quest for a Better  
Income Tax System**

**Ways To Get  
Capital**





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PHOTO: T. MICHAEL REZA

Joyce Gump has joined the legion of entrepreneurs in franchising. **20**



PHOTO: GARY WOODWELL

Modern Satellite Network's Robert Finehout (left) and Dan Kater are in a wave of new TV activity. **33**



PHOTO: SHIP MOORE

Sen. William Roth: Offering a tax plan.

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As a child, Dane Miller loved to take things apart; now he is helping put people back together.

Dirty acoustic ceilings were overhead aches until Gordon Hamilton teamed up with Anton Erins.

Robert MacLachie started with paper cutouts, but his plans have gotten bigger and bigger.

### Measuring the Economy **58**

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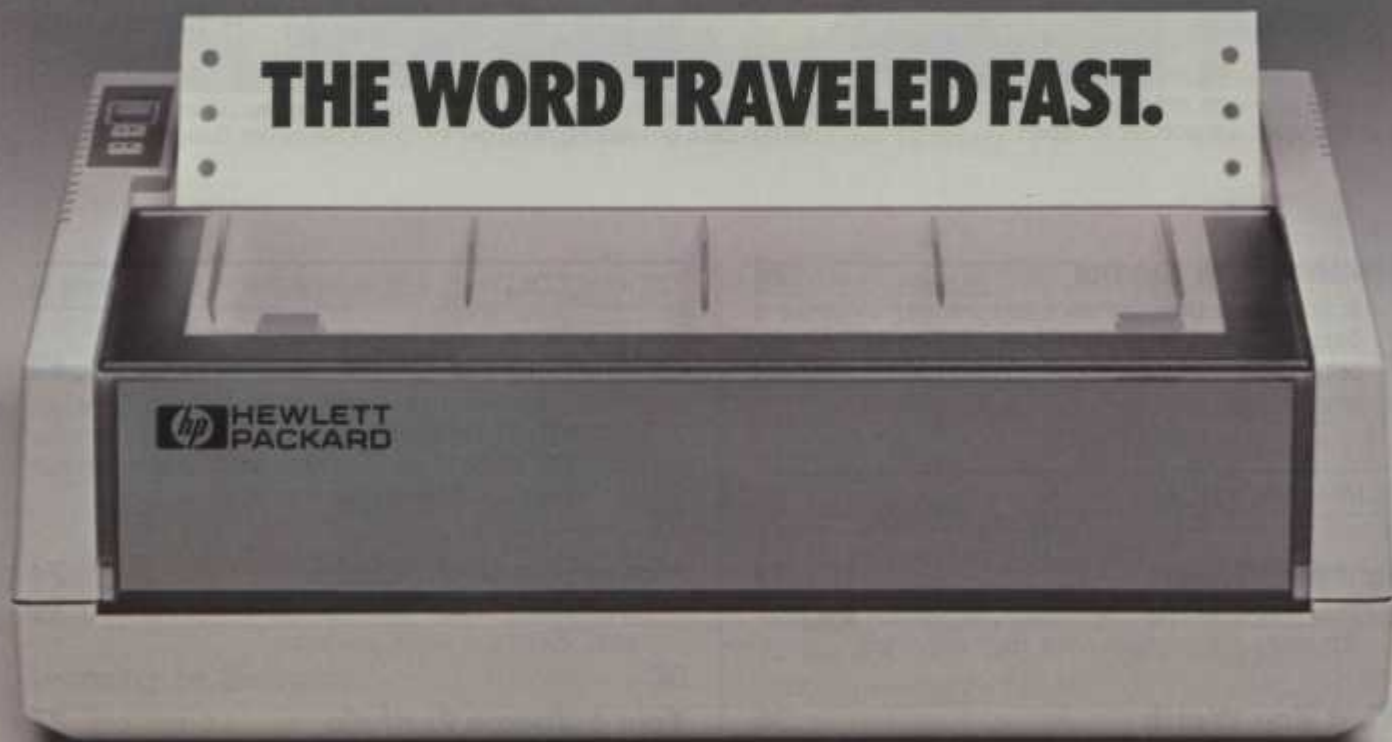
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**WHEN HEWLETT-PACKARD  
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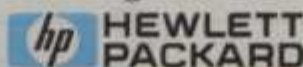
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## Lambs Who Lost Their Way

**A**S OLD George Mason used to say, a couple of hundred years ago, let us recur to fundamentals. Today's fundamental is the doctrine of federalism, and we are going to get at it by way of drunk drivers and air bags. We will get at it by way of Patrick Henry and the 10th Amendment, and at the end of the story we will have a Moral.

You will recall that our structure of government rests upon two foundation stones. One of these is the doctrine of separation of powers. The theory holds that the executive, legislative and judicial branches of government should stay in their separate orbits. That theory has taken a beating recently, as Congress has encroached upon the White House, the White House has encroached upon Congress, and the Supreme Court has encroached upon everybody. Put this one aside.

The theory of federalism, our second stone, holds that the central government should limit its activities to those truly national concerns that are spelled out in the Constitution. "The powers not delegated to the United States by the Constitution," says the 10th Amendment, "nor prohibited by it to the states, are reserved to the states respectively, or to the people." As the debates of 1788 made clear, this was the one amendment the infant states demanded more than any other. The states were to be laboratories of political experiment.

During the Virginia ratifying convention, Patrick Henry warned repeatedly that the federal government eventually would claim virtually all powers. "What shall the states have to do?" he demanded. By agreeing to the Constitution, Henry warned, the states would be entering a dungeon. "Is there no danger when you go in, that the bolts of federal authority shall shut you in? Human nature never will part from power."

Henry was talked down by Madison and others, but the old boy was right. The history of our republic is in part the history of the expansion of federal power and the contraction of state power. How long has it been since anyone heard of *intrastate* commerce? No such commerce remains. Over the years the states steadily acquiesced in their own enfeeblement. They became addicted to the narcotic of "federal aid," by which they were aided toward dependency. The states loved it. They had all the pleasure of spending money without the pain of raising it, and all that was asked of them was that they accommodate themselves to bit and bridle. Little by little their authority slipped away.

We saw a textbook example of the process this

summer in the matter of drunk driving. One of the few fields left to the states is the enactment of laws having to do with public morals. The regulation of alcoholic spirits historically has been a matter of state control. The 21st Amendment, repealing Prohibition, seemed to confirm this implicit understanding. Specifically, the states "respectively," in the language of the 10th Amendment, had power to fix the minimum age at which liquor could be purchased within their borders.

No more. Through a politically appealing amendment to the Surface Transportation Act of 1984, the states are put on terms: Either they enact laws by 1986 fixing a minimum age of 21 for the purchase of alcoholic beverages or they will lose 5 percent of their highway aid in 1987 and 10 percent in 1988. A carrot goes with the stick: If the states enact laws providing a minimum mandatory jail sentence for conviction of drunk driving, they will get a federal bonus.

A week or so after Congress adopted the drunk driving amendment, the Department of Transportation came up with a new wrinkle in the matter of air bags. The July regulation defies brief explanation, but it is to this effect: Unless states with two thirds of the nation's population enact laws providing for mandatory use of seat belts, automobile manufacturers must install air

bags or other passive restraints beginning with the 1987 model year. The regulation reflects a kind of bystander boldness: Let's you and him fight. If automobile buyers five years hence are compelled to pay for air bags, let them not blame the U.S. Department of Transportation; let them blame the states that refused to pass mandatory seat belt laws.

**O**NE OF THESE days some graduate student, working on his master's thesis, will undertake a searching investigation into the primary reason for the short rise and the long fall of the sovereign states. How did this whole business of "federal aid" begin? Was it with the land grant colleges? Was there significant objection as federal funds began to flow to education, to highways, to welfare, to libraries, to the construction of local sewerage?

The drunk driving amendments may be socially good. They are constitutionally bad. They remind us once more of the inexorable truth that federal aid is like Mary in the nursery rhyme, and federal control is like her little lamb. The Moral lies in their inseparable association: Everywhere that Mary went, the lamb was sure to go. □



How long has it been  
since anyone heard  
of *intrastate* commerce?

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# WASHINGTON LETTER

► **BROAD-BASED BUSINESS COALITION** is drafting far-reaching plan for federal budget cuts big enough to head off tax increases. Member organizations are U.S. Chamber of Commerce, National Association of Manufacturers, Business Roundtable, National Federation of Independent Business, American Business Conference and National Association of Wholesaler-Distributors. Each will throw extensive resources into campaign to win congressional approval for budget reductions that will bring down, eventually eliminate, federal deficit. Same organizations achieved major success when they mobilized in 1981 behind President Reagan's tax cut program.

► **COALITION'S SPECIFIC** recommendations will go to White House late this year for consideration in drafting of President's annual budget message, which goes to Congress early next year. Plan will also be submitted to legislators after 99th Congress convenes.

► **BUSINESS PLAN** is expected to propose multiyear schedule for tightening open-ended social programs, limiting price-linked increases in benefits to 60 percent of consumer price index gains, rather than present 100 percent. Another key proposal will call for raising eligibility age for Medicare from 65 to 67 by year 2027, same timetable planned for Social Security retirement eligibility.

► **OTHER LIKELY PROPOSALS** in business' cost-cutting initiative: Cut back federal bureaucracy, substitute genuine merit system for what are now virtually automatic pay raises, bring civil service and military pensions more in line with retirement plans for private-sector workers whose taxes fund the far more generous government pensions, shrink farm subsidies, slow growth of defense spending in ways that do not jeopardize security.

► **BUSINESS CONCERN** about bureaucracy gets added significance from report that size of government at all levels is again increasing after two-year decline. U.S. Census Bureau says total employment by federal, state and local governments as of last October was more than 16 million, up from 15.9 million in year earlier. Total pay of those workers was \$24.5 billion in year ending in October, up 6.1 percent from previous year.

► **STRANGE PRIORITIES:** Though several environmental laws have lapsed, Congress is rushing to extend one that expires in October of next year. Reason: Members want environmental achievement to bolster re-election campaigns but have been unable to come to grips with complexities of renewing such expired laws as Clean Air and Clean Water Acts. (Provisions of those statutes have remained in effect through appropriations process, but amendments to deal with shortcomings of both laws are stalled.) The House approved extension of Superfund for toxic waste cleanup before its August recess. It narrowly defeated amendments that would have allowed persons claiming injury from hazardous substances wide new powers to sue companies in federal courts. The Senate is expected to act on the bill this month.

► **ANOTHER ENVIRONMENTAL CONTROVERSY** swirls around leasing for production of oil and natural gas at offshore sites. Moratorium barring such leases expires October 1, and Congress is considering legislation to extend ban, which is supported by environmental groups. But 74 companies—including energy producers and users—have urged Congress to authorize "an effective and predictable offshore leasing program." They said in joint letter that \$52 billion of \$77 billion U.S. trade deficit last year was due to imported oil; that leasing



# WASHINGTON LETTER

fees can add \$7 billion to \$10 billion a year in federal revenue; and that four support jobs are created onshore for every worker on an offshore platform.

► **EMPLOYERS WOULD HAVE TO** continue pension contributions for workers who stayed on job past age 64, under proposal being drafted by Equal Employment Opportunity Commission. Proposed regulations, to be offered for public comment this fall, would require payments to pension funds for workers 65-69. Employers can now stop making them when worker reaches 65 and becomes eligible for full Social Security benefits. Change would follow recent amendment to Age Discrimination in Employment Act barring discharge of workers under 70 on basis of age. Under normal regulatory process, commission will receive public views, decide whether to modify proposal before making it final.

► **ORGANIZED LABOR**, trying for political comeback with all-out backing of Democratic presidential candidate Walter Mondale, gets bad news in report that union membership, even in formerly fast-growing government unions, is down even further than previously thought. Size of membership is important in AFL-CIO drive to rally members behind labor-backed candidates. But study by Leo Troy and Neil Sheflin of Rutgers University shows union membership in private sector has dropped 3 million since 1970, to current total of 14 million. That is only 19 percent of work force, same point at which labor stood in 1936-37. Government unions lost 400,000 members from 1976 to 1982 and are still dropping, study says.

► **DRIVE TO BOOST** voting registration among ranks of managers could help swell turnout in November election. U.S. Chamber of Commerce is conducting massive drive geared to "promissory vote" form, which commits signers to

register and to vote for candidates supportive of free enterprise system. More than half million forms have been distributed, and slide presentation, "For Want of a Vote," has been shown in more than 700 communities. Chamber drive resulted from revelations that 40 percent of managers did not vote in 1982, 25 percent were not even registered.

► **REGIONAL TELEPHONE COMPANIES** that emerged from AT&T breakup grow increasingly aggressive in search for new business. Six of the seven independent operating companies have filed requests with U.S. District Court in Washington for permission to conduct new activities. Included: marketing real estate, establishing cellular radio system in the Gulf of Mexico, pursuing various business ventures overseas and selling information-processing equipment. Although companies are spread across country, applications for authority to launch new types of enterprises must still be filed with federal court that has been dealing from start with plan for dismantling AT&T.

► **FIRST ANNIVERSARY** of U.S. liberation of Grenada will be marked October 25 with satellite television program strongly supportive of that action. Broadcast, to be aimed at college students, is brainchild of Reps. Newt Gingrich (R-Ga.) and Duncan Hunter (R-Calif.), leaders of conservative House bloc gaining more attention. Idea is to give young people insights they don't get on campuses into nature of Communism and U.S. response.

► **PROMISES OF TAX REFORM** have lost appeal to voters, says Sen. Steven Symms (R-Idaho). Noting that past promises of reform have generally meant higher taxes, he says grass roots now has the attitude that "when Congress talks of tax reform, grab your wallet and run for cover."



# Beating the Calendar on Gains

By Gerald W. Padwe, C.P.A.

The Tax Reform Act of 1984 shortened—from one year to six months—the length of time an asset must be held to qualify for long-term capital gains tax treatment when it is sold. But the six-month rule applies only to property acquired between June 22, 1984, and Dec. 31, 1987 (depending on the effect on federal revenues, the rule may be extended beyond that date).

Taxpayers who acquired property before June 22 will have to hold it a full year to get the favorable long-term tax treatment when they sell.

Nevertheless, optimistic investors—those who think that Wall Street's sluggish performance in the first half of 1984 was simply a pause before a bullish second half—may be able to take advantage of the shortened holding period for securities they bought before June 22.

If, for example, you acquired a stock late last spring, and it currently sells at a price that is slightly above its acquisition cost, you might consider selling the stock and immediately repurchasing it.

You will pay some tax on a short-term capital gain. Transaction costs, such as broker commissions on the sale and repurchase, also must be taken into account. But once the stock has been repurchased, you need hold it only six months for any gain you realize on a future sale to be taxed at long-term rates.

What if you sell such a stock at a loss, repurchasing immediately? The answer is less clear.

That loss will be disallowed by the Internal Revenue Service; under the "wash sale" rule, a loss is not recognized if the identical stock is acquired within 30 days after the sale. The loss is not disallowed forever, though. It is added to the cost of the repurchased stock, so that when the stock is sold the deferred loss is taken back into account.

Further, under the wash sale rule, the old stock holding period is added to that of the new one. It is not clear, however, whether the wash sale rule also substitutes the purchase date of the old stock for that of the new.

*Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

If not—the more reasonable answer, in my view—the second holding period starts after June 22, and the six-month rule applies.

But if the earlier purchase date is substituted, the second acquisition will be considered to be before June 22, and the old 12-month rule governs.

Interestingly, there appear to be no IRS positions on this subject.

## Flexible Benefits

IRS' controversial proposed regulations on flexible benefit plans—discussed in the July column—triggered more than widespread criticism. Congress took action, "grandfathering" existing plans.

Flexible benefit plans, also known as "cafeteria" plans, allow an employee to choose between taxable cash and non-taxable benefits. An employee can opt, for example, to have his salary reduced in exchange for the employer's paying for medical expenses not covered by the employee's insurance.

Under some plans, if an employee has given up more in salary than has been paid in benefits, the unused money can be refunded to the employee or rolled over to cover the next year's expenses. IRS' proposed regulations would bar such payments and rollovers; "use it or lose it" would be the rule.

But under the Tax Reform Act of 1984, cafeteria plans in place last February 10 (the date of a news release outlining the IRS position) may continue in operation through 1984 even though they do not conform to IRS rules.

Benefits under such plans will continue to be tax-free for employees—but benefits must not have been increased since February 10. If a plan meets certain requirements, the proposed rule precluding a cashout or rollover of unused benefits will not apply to it before July 1, 1985.

Cafeteria plans that have come into existence since February 10 will be subject to IRS' proposed rules as soon as they take effect.

A joint report from the Treasury Department and the Department of Health and Human Services on how cafeteria plans affect health care cost containment efforts is due to be presented to Congress early next year.

On the basis of past administration statements, the report is not expected to favor cafeteria plans. Flexible benefit issues are sure to be re-examined next year on Capitol Hill.

## Gift-Leasebacks

In a litigation campaign only spottily successful, IRS has failed to persuade the Tax Court and most appellate courts that a gift-leaseback of real property (often an office building) for use in a taxpayer's professional practice should be treated as motivated solely by tax avoidance.

In a typical situation, a doctor purchases a small building in which to carry on his practice. The building is transferred to a 10-year Clifford trust of which the doctor's children are beneficiaries. A fair rental is paid to the trust by the physician, who deducts the rent as a business expense and, effectively, passes that income to the children.

IRS has challenged these transactions on the ground that there is a lack of business purpose in setting up the arrangement. While two circuit courts of appeal have upheld IRS' position, five (plus the Tax Court) have held against it.

A 1978 Tax Court decision provides the basis for a recent IRS announcement. In that decision, the court noted that the transaction in question differed from the usual gift-leaseback since the doctor first incorporated his practice but did not transfer to the corporation the furnishings and equipment necessary to the practice of medicine. Rather, he transferred them to a Clifford trust, and the independent trustee leased them to the professional corporation.

IRS has announced that it will cease fighting these three-party (practitioner, corporation, trust) gift-leasebacks. It reserves the right to conduct litigation against the more typical two-party (practitioner, trust) gift-leasebacks, continuing its search for more sympathetic appellate courts.

The lesson for practitioners is clear. If there are not strong reasons against it, use the professional corporation as an intermediary in such transactions. □

GERALD W. PADWE is national director-tax practice for Touche Ross & Co.



## Reconciling Business and Religion

It is heartening to see the recognition given to the importance of educating the nation's clergy on the economic facts of life ["The Board Room and the Pulpit," July]. It is discouraging, though, that the article ignored Economic Education for Clergy, Inc.

More than 25,000 clergymen and women have participated in EEC programs over the past quarter-century. During 1983 intensive clergy seminars on economic issues were conducted in 29 different states and programs involving 36 seminaries or schools of theology were initiated or conducted.

Send letters to Editor, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

More than 113 of the nation's largest corporations, farm organizations, foundations and labor unions contributed to the EEC economic education efforts in 1983. Many actively participate in EEC by furnishing speakers, board members and other resources.

It doesn't detract from the efforts of newcomers to the field to mention the efforts of those who have tilled the longest.

JOHN P. EDWARDS  
Vice President, Corporate  
Communications  
Public Service Indiana  
Plainfield, Ind.

"The Board Room and the Pulpit" struck a sensitive nerve with me. The formation of the Lay Commission on Catholic Social Teaching and the U.S. Economy is an important development in the defense of Catholic businessmen.

We have seen an unfortunate situation developing where all businessmen

have been categorized as deceitful, manipulating agents. No businessman could ever continue to prosper for very long by subjecting his employees or clients to unfair or un-Christian practices. It is time for honest businessmen to stand up and state that their moral character is as strong as that of any other member of the community.

JOHN DAWSON  
"Tristate" Top-Notch  
Party Rentals Inc.  
Mount Vernon, N.Y.

May I recommend *The Light and the Glory* by Peter Marshall, Jr., for those in the board room and in the pulpit. This fine book sets forth the religious beginnings of the nation and discusses how industry, first a hero, became the enemy as the nation has moved to the left politically.

ROBERTA S. YORK  
Jackson, Miss.

Your article confirmed that our organization is on target with the program between clergy and business representatives that we began in January.

"Examining the American Dream" is offered to assist the clergy in understanding economic concerns and to provide business people with an opportunity to learn how the clergy feels about many local and national economic problems.

ELAINE K. SHAFFER  
Executive Director  
Americans for the Competitive  
Enterprise System  
Erie, Pa.

### Regulatory reviews mixed

In "The Good News on Regulation" [July], James J. Kilpatrick describes how regulation is moving towards a tolerable level.

However, he does not mention that state and local governments continue to churn out duplicate regulations. The recent controversy over EDB (ethylene dibromide) in our food supply is a classic example. Federal regulations established acceptable levels, but some states set standards so low they cannot even be reliably analyzed.

D.R. FURNESS  
General Manager, Flour Service  
Penwalt Corporation  
Buffalo

The experience of our highly regulated small business is the opposite of Kilpatrick's statement "that we have

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## LETTERS

moved over the past four or five years ...from the unreasonable to the reasonable" with respect to regulation. In 1983-84 we had the worst experience by far in the 68 years we have been in business.

Where did Kilpatrick get his information—other than from the agencies themselves?

R.S. LADLEY  
President  
L.T. York Company  
Brookfield, Mo.

### Population trends

I read your July cover story, "America's Changing Face," with a great deal of interest. The demographic trends it outlined will most certainly affect the Hoover Company and other manufacturers of consumer durables.

R.W. GILLMAN  
Vice President, Public Affairs  
Hoover Worldwide Corporation  
North Canton, Ohio

On your July cover is a map from Rand McNally-InFoMap, Inc., showing every county of each state and the percentage change in population between

1970 and 1980. Could you tell where to write to get one of the maps?

JOE ROSE  
President  
Rose Gravel Company  
Carlsbad, N.M.

Editor's note: Write to: InFoMap, Inc., 3300 Arapahoe, Boulder, Colo. 80302. Or call: (303) 444-3613.

### Fighting bad checks

Re: "Catching Rubber Checks Before They Bounce" [July].

Alamogordo, N.M., and Otero County have virtually eliminated the bad check problem. This has been done without commercial check collection or service agencies, by merely providing a program for merchants and demanding that appropriate laws be enforced.

Copies of the program have been sent free of charge to chambers of commerce in cities of 25,000 or more and I will gladly send, at no cost, a copy to anyone who requests it.

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Gibson's Products Company of  
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## Next Month in *Nation's Business*

### Can You Survive Success?

Your young enterprise is healthy, but growing pains are ahead. Can you meet the managerial, marketing and financial demands of running a larger firm? A report on what to expect—and on how others survive success.

### Where Trucking Is Headed

It's a new ball game in the trucking industry. Whether your business is part of the industry or served by it, you'll need to know the score. Involved are new laws, new technology and a new rate picture.

### How To Deal With Headhunting

An executive recruiter calls and says you are a prime possibility for an exciting, well-paid position at another company. Do you simply fall all over yourself with joy, or do you look cautiously before you leap?

### America's Trade Crisis

The United States is suffering its worst trade deficit since the Depression. An examination of the issues involved, the deficit's impact on the economy, the outlook for the future—and a silver lining.





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- 8 Photoelectric Eye** automatically dims alert lamp at night to minimize glare.
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**25 Full One-Year Limited Warranty** covers both parts and labor.

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# More Funds, Less Computer Crime

Small businesses may see an increased flow of capital and learn how to thwart computer criminals if two laws signed by President Reagan have the intended effects.

Banks that do a lot of lending under the Small Business Administration's guaranteed loan program should have readier access to loan funds thanks to legislation authorizing SBA to pool loans for resale in the secondary mortgage market.

The Secondary Market Improvement Act provides statutory authority and more effective regulations for an SBA secondary market program in existence since 1972 but now nearly moribund.

The new law requires SBA to beef up its efforts to market pools of guaranteed loans to investors like pension funds, mutual funds and insurance companies.

The guaranteed loan program assists small firms that otherwise cannot borrow from banks, by ensuring that 90 percent of a commercial bank loan will be repaid if the borrower defaults.

At times, banks, particularly those in rural areas, lack funds to continue making loans unless they can sell the federally guaranteed portions of the loans to investors. The new law encourages grouping SBA loans into packages to make them more attractive to investors in the secondary market.

A second new law directs SBA to establish a small business computer security and education program that will provide information on how to prevent computer crime.

The law for the first time gives SBA authority to work with profit-making companies in developing training sessions under a program.

A recent American Bar Association study found that half the small firms surveyed reported some type of computer crime in their operations in the last year. Combined annual losses from such crimes were estimated at \$145 million to \$700 million.

### Minority Firms' Week

Minority-owned businesses will be honored next month for their contributions to the nation's economy, during Minority Enterprise Development



PHOTO: TOM WOLFF

Week. President Reagan has designated October 7-13 to salute the accomplishments of minority small business owners. Activities in Washington coordinated by the Small Business Administration and the Commerce Department's Minority Business Development Agency will be capped by Reagan's naming of the Minority Small Business Person of the Year.

Also to be honored will be outstanding minority contractors, larger businesses that have helped minority firms, and government contracting officers who have worked closely with minority firms on federal procurement.

### Finding the Money

"Financing Your Business," a new guide published by Price Waterhouse, the national accounting firm, is aimed at helping smaller companies find the right sources of financial help.

The 65-page guide discusses various stages of growth in entrepreneurial companies and points out ways financing can be obtained at different times. Questions to ask and terms to use are also included in the book.

Donald Rappaport, national director of smaller business services at Price Waterhouse, notes that the guide is designed for quick, easy use: "Most smaller business people do not have the time to become expert financiers, but most need to understand the financial basics—where to go, what's available,

what's reasonable to ask for, how much it will cost. This book answers many basic questions that help keep entrepreneurial expectations realistic."

"Financing Your Business" is \$5 per copy from Price Waterhouse, 1251 Avenue of the Americas, New York, N.Y. 10020.

### The ABCs of R&D

If you want to know how to tap into \$2 billion in federal research and development funds next year, Federal High Tech '85 is for you.

Two two-day conferences, sponsored by the National Science Foundation and the Department of Energy, will feature representatives from 15 federal agencies, 16 federal government prime contractors and 6 professional societies. All the sessions are geared toward helping firms with fewer than 500 employees participate in the federal small business innovation research grants program.

The conferences, to be held in Denver October 23-24 and Philadelphia November 13-14, also will concentrate on problems small high tech firms may have with venture capital, marketing, financial management, federal programs, proposal preparation and R&D accounting.

Cost for each of the conferences is \$50, which covers two lunches and all conference materials. Registration and more information can be arranged by calling the Federal High Tech '85 hotline at (202) 833-8444 or by writing the conference coordinators: Foresight Science and Technology, Inc., 2000 P Street, N.W., Suite 305, Washington, D.C. 20036.

### Anticrime Insurance

The American Insurance Association is urging Congress to re-establish the federal government's anticrime and riot insurance programs. Abolished last year, the two programs had helped fill an industry void, the association says.

"The cost to small businesses and residents of the loss of this type of insurance outweighs the minimal cost to the government," says George K. Bernstein, an AIA official who formerly served as federal administrator of the two programs.



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## Inflation: A Bogeyman Fades

Only two months ago, Wall Street was worried that the booming recovery would push interest rates into the stratosphere. Rates on such bellwether issues as long-term Treasury bonds were moving in the direction of 15 percent.

But the market's pessimism was broken, says James Smith, Union Carbide Corporation's chief economist, when Federal Reserve Board Chairman Paul Volcker told a congressional hearing in late July that inflation is under control and further tightening of credit is not likely in the foreseeable future.

Volcker's testimony set off a mid-summer rally. The markets affirmed the view of many economists that the current economic expansion will continue into 1986.

"The markets finally woke up to what the real world has known for some time," Smith says, "that the business outlook is great."

In some quarters, in fact, the inflationary psychology is changing so fast that a few economists have begun to sound alarms about deflation—price drops so rapid they could bankrupt some producers.

This fear, Smith says, reflects the difficulty markets are having in adjusting to low inflation—an uncommon phenomenon in the last 15 years. He notes that between 1790 and 1970 inflation in the United States averaged just 2 percent.

"There has been a reassessment of the inflation outlook," says William Helman, cochairman of the investment policy committee at Smith Barney, Harris Upham & Company.

Helman points to falling prices for crude oil, lumber, copper and aluminum ingots, among other commodities. He also cites the calming effect of wage increases that have averaged less than 3 percent thus far this year.

He anticipates that lowered inflationary expectations will stabilize the bond market, with lower yields sending more money into stocks.

Patrick Anderson, an economist at Detroit's Manufacturers National Bank, also expects interest rates to level off or even drop in coming months. That assessment reflects a decline in



Weak commodity prices help keep inflation down, but low metal prices hurt domestic copper producers.

commercial and industrial loan demand in the coming months. Far from being a negative, Anderson says, it suggests that growth will slow to between 4 and 6 percent in the year's second half—healthy, but less than the near 9 percent clip set between January and June.

Anderson says automakers will be running production lines "flat out" for the rest of the year, except in the event of a strike by the United Auto Workers union. With spendable income growing and inflation low, he says, demand for cars will remain strong despite high interest rates.

### Relief for Steel, Copper?

The copper and steel industries are anxiously awaiting separate decisions due no later than mid-September on the form of import relief to be granted by the Reagan administration. At stake are the future size and economic health of two important basic industries. Political considerations may weigh heavily in the President's decision.

Earlier this year the U.S. International Trade Commission found that copper and steel producers are being injured by imports, and it recommended a combination of tariffs and quotas as proposed remedies.

Ambassador William Brock, the chief trade negotiator, is said to be in "constant dialogue" with industry executives as he prepares final recommendations for the White House. Brock, who is an avowed opponent of costly import quotas, may be seeking to negotiate a compromise settlement—one that the affected industries can live with.

By law, the President can impose

quotas, tariffs, tariff-rate quotas and so-called orderly marketing agreements. Such agreements are a fixture in the textile industry, and Japan's voluntary auto export quotas work like an orderly marketing agreement, as does an existing agreement covering carbon steel imports from Europe.

Speculation abounds that the President's political standing in such key steel producing states as Pennsylvania, Ohio, Michigan and Indiana, and in Arizona and Utah, where the copper industry's employment is concentrated, may have a lot to do with the President's decision.

Some steel producers are said to be unhappy with the import relief recommended by the ITC. Some want higher tariffs and lower quotas covering a wider range of products than the ITC proposed.

Copper producers complain that they are competing against the "deep pockets" of the International Monetary Fund, which, they say, is indirectly financing high but uneconomic production levels in many financially-strapped Third World copper producing nations.

Legislation to discourage that alleged practice is backed by copper producers but opposed by the administration. It says tying the hands of the IMF would undercut efforts to bring market-oriented solutions to the Third World's financial troubles.

Hanging over the White House is the possibility that, if domestic steel producers are not shielded from illegal foreign subsidies and dumped steel entering the United States, Congress may enact a steel quota bill. A majority of House members and 29 senators have sponsored such legislation. Critics warn that its enactment could raise prices and set off a new round of inflation.

Meanwhile, the dollar's new strength has stiffened price competition from imports. That has pressured domestic companies to keep costs and prices down, says Robert Ortner, the Commerce Department's chief economist. Besides stimulating investment, he says, the strong dollar helps keep inflation low. "The ultimate winners in an open trading system," says Ortner, "are consumers."



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# The Great Franchise Boom

Franchising's phenomenal growth is taking it into new fields—from mail boxes to banking and teeth to tune-ups.

By Meg Whittemore

**W**HEN Joe Garson retired as vice president of a medium-sized manufacturing company in Detroit, he did not buy a rocking chair. Seeking both a hobby and a new way to keep his hand in business, he went in search of a franchise.

He settled on Mail Boxes Etc. USA, Inc., a business service that performs postal tasks, such as packaging and mailing, that some people would rather pay others to do.

Garson opened a Mail Boxes outlet in West Bloomfield Hills, Mich., in 1982, naming himself president, bringing in his wife, Edith, and adding a partner, Ellis Rafkin, who brought in his wife, Rita.

The partners' investment totaled \$50,000, including the franchise license fee, equipment and property improvement.

"At this stage of my life, I wanted a business with a proven format," says Garson, who is 61. "If I had started this without the franchisor, I would have made a number of costly mistakes. The franchisor had the know-how, and that made things much easier."

By investing in Mail Boxes, Garson became part of one of the fastest growing areas of American business today. Franchising now employs 5.3 million workers and gets a full third of American consumers' retail dollars.

Sales of goods and services by franchised businesses of all types are expected to reach nearly \$460 billion this year, an increase of 9 percent over 1983 and of more than 300 percent over 1969.

This franchise boom is a result of the convergence of two key trends in American life. One is the surge in entrepreneurship, the desire of individuals to "start a business of my own," to "be my own boss." The franchise route offers aspiring entrepreneurs a way to achieve these goals with more speed and less risk than they would encounter by going it alone.

The other trend is the change in life-

Joyce Gump, a tune-up franchisee, didn't know anything about business or cars when she started; now she has seven shops.



PHOTO: T. MICHAEL REED



styles that has put new emphasis on service and convenience, both particularly suited to franchise operations. The sharp increase in the number of families with two wage earners, for example, has been a major factor in the soaring sales of fast food chains and of child care, household help, and health and dental outlets offering prompt service outside normal working hours as well as within them. And the new affluence of two-income couples has contributed to a sharp growth in business for hotels, auto rental and other franchised firms catering to travelers.

For decades, the franchise field was dominated by product and trade name franchising, principally auto and truck dealerships, gasoline service stations and soft-drink bottlers.

The late 1950s saw the rise of business format franchising, in which there is a continuing relationship between franchisor and franchisee. McDonald's, Burger King, Wendy's, Holiday Inns, Howard Johnson's and many other fast food and hotel chains are among the leaders in format franchising, which surged in the '70s and '80s.

As a result, there are now 462,000 franchise outlets in this country—an increase of 20.3 percent in 15 years. Though there has been a decline in vehicle dealerships and service stations, the number of format franchises has risen 133 percent, to 282,500.

This relationship involves not only the product sales and trademark use that has traditionally characterized franchising, but also a prescribed way of doing business. The franchisor sets

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"I always knew I wanted to go into business for myself."

---

standards of quality and performance the franchisee must meet. The latter has the advantage of going it alone without being alone, as the franchisor provides guidance on the basis of proven success.

License fees paid the franchisor can range from \$2,000 to \$60,000, and capital requirements from a few thousand to more than \$100,000. Sales royalty payments to the franchisor may vary widely, depending on type of product and total number of outlets in the franchise.

Recently, there has been a trend toward conversion franchising, in which owners of independent businesses become franchisees to acquire a competitive edge from the name recognition and expertise that franchisors offer.

Century 21, the real estate sales firm, has been a conversion franchising leader. Other firms have followed—some, like restaurants, in a field traditionally associated with franchising, but some, like Mr. Build, a home repair service, outside the tradition.

Much of the franchise boom is being fueled by nontraditional franchisors, including the one to which Joe Garson is linked.

Mail Boxes—the franchisor is headquartered in Carlsbad, Calif.—offers things you cannot get at a regular post office, such as 24-hour access to boxes

PHOTO: DAVID FITZGERALD



John Hazelton (left) and partner John Simonelli decided on regional franchising for their Oklahoma City-based Moto Photo.

PHOTO: JAMES MCCRELL



Lawyer Charlotta Stephens bought her first McDonald's outlet in Baltimore because she wanted control over the bottom line.



and round-the-clock message service. The unit Garson and Rafkin opened in 1982 took in \$100,000 the first year and \$200,000 the second. The partners, who have the exclusive right to operate Mail Box outlets in Oakland County, where West Bloomfield Hills is located, now have six franchises and plan to double that figure.

"I knew that nobody in the Detroit area had anything like our services," Joe Garson says. "I saw a need for them, decided to try my luck and came out a winner."

Not every franchisee is a winner, of course, but the failure rate is low compared to that for small businesses in general. The Small Business Administration estimates that 65 percent of new enterprises fail within five years. The Commerce Department says that in 1982, the last year for which data are available, only 3.3 percent of franchisee-owned outlets closed, and many of the closings were for reasons other than failure.

Among the legions of winners is Joyce Gump, a former hairdresser in Rockville, Md., outside Washington, who now is an auto tune-up franchisee of Precision Tune, of Beaumont, Tex.

Following her attorney-husband's death, Gump sold her home, moved into an apartment and went into partnership with Thomas D. Fox, who had been a

colleague of her spouse. They split start-up costs of \$63,000, including a \$15,000 franchise fee, and opened a Precision Tune shop in 1980.

Gump concedes she was an unlikely candidate to enter her new field: "I didn't know anything about business or tuning up cars. My friends all told me I was crazy. But after scouting around, I knew that Precision Tune was the way to go."

The business started out slowly but has paid off handsomely, she says. She and Fox now have seven shops in the Washington area—they have exclusive Precision Tune rights there—and expect to double that number in coming months.

**M**ORE WOMEN are entering franchising as are more members of minority groups. (In both cases, the numbers—there are no hard figures—are still comparatively small.)

Charlotta Stephens is part of that trend. A black, she owns two McDonald's outlets in the Baltimore area.

Her business career traces back to 1972, when she was a law student at Howard University in Washington. McDonald's was used as a case study in a corporate law class she was taking.

"I always knew I wanted to go into business for myself," she says, "but it wasn't until I studied the McDonald's approach to franchising that I realized the importance of parent company assistance."

For nine years she worked as a lawyer, ending up as a senior Commerce Department attorney. But, she says, "I wanted control over the bottom line. I

wanted something that produced immediate results."

In May, 1982, she enrolled in a McDonald's training course, and she logged 1,200 training hours in subsequent months. In December she left the civil service and opened a McDonald's.

"I was in that store 14 hours a day, seven days a week," she says. "Money wasn't the prime consideration—I just didn't want to fail."

She did not fail. During the first year, sales were 17 percent above projections. She opened her second McDonald's last January.

Stephens recommends that would-be franchisees go to a franchisor that offers marketing support and full training: "It gives you a stronger start. Then it's up to you. Take the plunge."

Numerous entrepreneurs are taking the plunge as franchisors, rather than franchisees.

One is Ron Saverin, who noted a few years ago that dental schools appeared to be pouring out a flood of fledgling dentists. He also noted that customers appeared to be more convenience-oriented than ever.

Saverin put the two thoughts together and brought in Myles Sokolof, D.D.M., as a partner. Greenwich, Conn.-based Dwight Systems, Inc., franchisor of Dwight Dental Care Centers, was born in 1982.

A dentist pays a \$20,000 franchise fee, puts up \$155,000 for construction and start-up costs at a site in a shopping center, brings in other dentists as well as oral hygienists and dental assistants, and offers group practice dentistry that includes orthodontia. Shopping center hours are kept. Says Saverin:

Larry Bader (left) is the Richmond, Calif., franchisee of Dwight Dental Care Centers, which offer group practice in shopping centers. The parent firm has 23 dental or medical centers operating and 102 more signed.

**dwight  
DENTAL CARE**







Edith Garson helps a customer of Mail Boxes Etc. USA, Inc., in West Bloomfield Hills, Mich. Her husband, Joe, opened the franchise outlet after he retired.

"The result is one-stop shopping and quality dental care for the consumer."

Dwight puts in a good word for franchisees with lenders, and it offers a helping hand with site selection, staff training and records management.

The company is now marketing urgent-treatment medical centers. Dwight went public in December, 1983, and raised \$3.5 million. Twenty-three dental or medical centers are operating

in San Francisco, Los Angeles, St. Louis, Pittsburgh and Tampa, and contracts for 102 more centers in those cities have been signed. Expansion elsewhere is planned.

Another nontraditional franchising operation is Moto Photo, Inc., a franchisor of one-hour photo finishing labs. It started in 1981 in Oklahoma City as the brainchild of John Simonelli and his friend and associate John Hazelton.

The partners opened three stores, and consumer response was overwhelming. The company went public last year, with 17 stores in operation. By the end of this year there are expected to be 200, many of them existing businesses converted to Moto Photo stores.

Simonelli says Moto Photo's growth is attributable to luck and planning. The luck, he says, was in coming along at a time of unmet consumer demand for fast, quality photo finishing. As for planning, he says, "we knew that we wanted to be a marketing company rather than store operators and that we wanted rapid national expansion." So Simonelli and Hazelton studied the fast food industry and borrowed a system that had played a large role in its take-off—regional franchising.

**R**EGIONAL FRANCHISING allows a business to mushroom by offering exclusive development rights for a particular area to an individual—a subfranchisor—in exchange for a split on the franchise fee or on future royalties in that area.

The franchisor attracts highly motivated entrepreneurial types without having to add them to the payroll, the subfranchisor gets a chance to make a lot of money, and the franchisee benefits through close proximity to the sub-

## Investigate Before Investing

So you want to become a franchise holder. Where do you get information?

The U.S. Small Business Administration and the Commerce Department's International Trade Administration provide some information about franchising overall.

Franchisors' advertising in business publications is a source of information about specific opportunities.

Another is the International Franchise Association, sole trade organization for franchisors. Its membership directory gives information on costs, types of business, locations and contacts. All members must comply with a code of ethics.

Experts say the first thing a person who wants to invest in a franchise should do is examine personal characteristics. Can your family (if there is one) handle the time commitment necessary for success in business? Are you really the go-my-own-way type, or do you need a boss? Is the business suited to your tastes and training?

The International Franchise Association recommends that you also consider such questions as:

- Is the product or service obsolescent?
- Is the franchisor experienced, successful, financially strong and reputable?
- What is the experience and financial history of the company's officers and directors?
- What is the litigation history, if any?
- What are the profit projections?
- What is the cost—initial fees, cash requirements, royalties, other fees?
- What are the company's operating practices, assistance and controls like?
- What is your right to sell?
- How long is your contract for, can you terminate it ahead of time, and can you renew it?

Experts say the contract should be carefully examined and thoroughly understood by the prospective franchisee. If you do not understand

it, hire an attorney who does. Things to look for—and question—include the scope of the contract. Does it cover all aspects of the franchises, including training and management advice?

Some contracts contain an item giving the franchisor the right to buy back the franchise. If that is the case, you should know how the price will be determined and under what circumstances the franchise agreement can be terminated.

Other questions to ask: Will you be required to buy a certain amount of materials? From whom? How are any disputes between the franchisor and the franchisee settled? And, finally, will you have exclusive rights to a territory and for how long?

The International Franchise Association's 1984 membership directory lists over 450 businesses.

To get it, write the IFA at 1025 Connecticut Avenue, N.W., Suite 707, Washington, D.C. 20036. Cost is \$3.95, first-class postage and \$1.95, bulk rate.



franchisor—a direct representative of the parent company who can provide needed expertise on the spot.

Moto Photo set up a network of 20 subfranchise regions, each with a population of about 3 million. Subfranchise owners bought rights to a region and were committed to open nine franchises within 15 months. Franchisees get extensive support services, including site

exposure that would bring in more revenues. But, if your case is typical, you cannot branch out across state lines.

You can cross them, though, by franchising, and that is what a number of banks are doing. First Interstate Bancorp, of Los Angeles, was the first to establish a franchising system, in 1982. It has franchisees in five states.

A bank in another area pays a fran-

chising abroad. But the spectrum is wider than that. Franchisers abroad include Ziebart, a company that rust-proofs autos; Manpower, Inc., which specializes in temporary help services; and Dip N' Strip, whose forte is furniture stripping.

The International Franchise Association, trade association for franchisors, reports that at least 37 percent of its 480 members now franchise internationally, and that more intend to do so.

What is ahead for franchising? Some industry leaders predict that federal and state regulation—imposed to guard franchisees against possible fraud by disreputable franchisors—will grow. But others are not so sure.

Currently, all franchisors must abide by a 1979 Federal Trade Commission requirement that they give prospective franchisees a disclosure document containing information on 20 subjects. In addition, 15 states now have laws to protect franchise buyers—California, Hawaii, Illinois, Maryland, Michigan, Minnesota, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington and Wisconsin.

Andrew A. Caffey, International Franchise Association general counsel,

says that piling regulation on top of regulation to protect franchise buyers has resulted in unwieldiness.

Many state legislators are working with industry representatives to ensure that action designed to benefit the franchisee does not discourage franchising. Michigan Gov. James Blanchard last May signed a law ending what he termed "burdensome franchise regulation."

Though the future of franchising regulation may be difficult to predict, that is not true of the future of franchising itself, experts say.

Increasing numbers of business people can be expected to enter the field. And consumers—ever on the lookout for convenience, product and service identity, and quality—can be expected to devote an increasing share of disposable income to the products and services sold. □

Companies are using franchising to distribute themselves internationally. At the end of 1982 U.S. franchisors had 23,524 outlets in Europe, Asia, Latin America and Canada.

selection, store design and construction, and on-the-job training.

Progressive Industries, of Dayton, Ohio, a multimillion-dollar retail photo finishing corporation founded in 1965, is now Moto Photo's majority stockholder and has helped it with the latest photo finishing technology.

Conversion financing will loom larger and larger in the Moto Photo picture, John Simonelli says. By offering cost savings on advertising, investment financing, workshops, paper, film and supplies, he expects that the company will attract independent photo finishers at an increasing rate.

Suppose you are a banker, worried about large banks' competition as well as meeting the costs of the state-of-the-art technology so necessary in banking these days. You would like nationwide

chise fee and takes the First International Bancorp name. The bank gets the exclusive right to use that name in its area, access to the First Interstate automatic teller machines network and data processing facilities, and participation in national advertising programs.

Franchising, says First Interstate spokesman Paul Minch, "allows us to move into a 'national player' position—to distribute ourselves nationwide."

**O**THER COMPANIES are distributing themselves in other countries through franchising. In 1971 U.S. international franchisors—there were 156 of them—had 3,365 outlets in foreign countries.

By the end of 1982—the latest year for which figures are available—there were 295 franchisors and 23,524 outlets in Europe, Asia and Latin America, not to mention Canada.

Hotel and fast food companies come to mind immediately in the context of



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MEG WHITEMORE is director of communications for the International Franchise Association.



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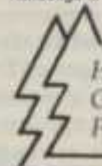
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# The Many Roads To Venture Capital

The quickest path to financing is not the same for every entrepreneur.

By Andrew J. McWethy

**F**OR BUSINESSES that need capital, this can be a golden age. Far more venture capital firms exist than ever before. And in less than a decade their assets have jumped from about \$2 billion to perhaps \$12 billion. There has been a slowdown recently in the flow of investment into some of them, but plenty of venture capital is available.

As a result, entrepreneurs are in a good position to strike bargains. Companies that need money just to get started may have to surrender no more than 50 percent of their equity. A few years ago the figure might have been 70 percent.

The venture capital market produces many a dazzling success story.

A dozen years ago, a small computer service firm—annual sales of \$900,000, pretax profits of \$130,000, net worth of \$360,000—came to Irving Trust Company's venture capital arm for funds to help it grow.

The firm had borrowed all it could from banks, but we liked its prospects and advanced it \$250,000. In exchange we received debentures convertible at any time into common stock equal to 10 percent of equity. Eventually we made the conversion.

Helped by our funds and its own expertise, the firm prospered. At the end of 1982, it had sales of \$29 million and pretax income of \$7 million, and it went public at \$19 a share, pushing its value above \$200 million. Our \$250,000 invest-

ment had really paid off. The convertible debenture route is a common one for obtaining venture capital. The venture capitalist gets debentures that typically are convertible into 25 to 30 percent of a company's common stock after a certain period. The company may pay only interest for a few years, then begin to pay back principal as well.

Such an arrangement is usually a second- or third-round financing; the company is already marketing its product or service with some success and is profitable.

Other routes:

**Common stock.** This arrangement is often used in first-round, start-up financing. In exchange for capital, the venture capitalist usually demands ownership of 40 percent of the fledgling company in the form of common stock, plus a seat on the board of directors.

**Convertible preferred stock.** A company gives the venture capitalist preferred stock that pays a reasonable dividend and is convertible into 40 to 80 percent of the common equity within a stated number of years. This arrangement is usually considered second-round financing; the company needs equity to maintain its cash flow.

**Loan with an option to buy stock.** This relatively rare kind of financing usually occurs when a company is functioning profitably. The borrower receives a loan for a stated period and pays only interest for the first few years, then both interest and principal. The venture capital firm can buy 10 to 25 percent of the company's common stock at a low price whenever it wishes.

**Equity R&D partnerships.** Venture capitalists put up money to launch a

brand-new company, money that the company uses to fund research and development projects. In the early years they deduct all their losses against ordinary income on their tax returns. Then, when the company is about to become profitable, they convert their interest into equity, tax-free, according to a prearranged formula. Because of the tax savings, they usually get less equity than in a conventional transaction.

**A** COMMON VENTURE capital arrangement these days is the leveraged buyout, in which one or more executives of a company buy all or part of the company. Here is how one such deal worked:

In 1979 executives of a major corpo-

ANDREW J. MCWETHY is executive vice president and general manager of Irving Capital Corporation, a small business investment company, and ITC Capital Corporation, a venture capital firm. Both are affiliates of Irving Trust Company, New York City.







To obtain venture capital, you must first learn where it is available. An excellent source is *Guide to Venture Capital Sources* (Capital Publishing, Wellesley Hills, Mass.). Other sources include accountants, commercial and investment bankers, and lawyers.

**A**SCERTAIN WHETHER a given venture capital firm limits its investments by area or type of industry, whether it limits the amount and type of its financing, and what kinds of companies it has helped and their levels of sales and profits at the time. Ask executives of those companies whether the firm is flexible and easy to deal with.

Check, too, whether the firm is a passive or active investor. Some venture capitalists confine themselves to reviewing financial statements, thus giving companies they help a great deal of freedom. But many venture capitalists specializing in early-stage financings want considerable say about their clients' major business decisions. That is not necessarily a bad thing: They often can provide valuable know-how on evaluating acquisitions, mergers, new lines of business and new products. They may also help obtain more bank credit.

Only you can decide which kind of venture capitalist would be best. But do determine whether the firm is run by ethical executives. Check the reputations of its executives and investors with accountants, bankers and lawyers knowledgeable about this kind of financing.

Also find out how long the venture capital firm has been in business. Most venture capitalists are sophisticated financiers, but the recent influx of new money raises the possibility that some firms may not be as experienced as you would like.

If possible, ask an intermediary, such as a small, specialized investment bank, to provide introductions.

In advance of a meeting, provide a written memorandum, running no more than 30 pages. The memorandum should discuss the background of your company, the nature of its industry or service field, the business plan it now uses, its products, production methods and marketing methods, its customers, its management and work force, its financial record and projections for the future, and the kind of financing it

seeks. The memorandum should contain a good summary of key points.

You will be expected to make a verbal report, too, perhaps before the written report. First impressions count, so try out your pitch on business colleagues or investment bankers. They may spot points you failed to cover, as well as flaws like wordiness.

The venture capitalist will investigate your management methods, markets and finances. He will probably talk at length with your associates, former employees and customers. Only then will he be willing to deal.

Enter these negotiations with a clear idea of what kind of financing you prefer, but be flexible. The venture capitalist may have a better financing plan than you do. The terms you get will depend largely on circumstances, including the amount of capital you have already, the amount you seek and the stage of your operations' development.

Borrowing usually plays an important role in the financing. Most companies that seek venture capital want a loan to be a large part of the transaction, even though they must pay more interest than they would at a bank. The more they borrow, the less they have to give up in equity. Venture capitalists, on the other hand, want equity—and eventual long-term gains.

**I**F YOU ARE NOT happy with the terms the venture capitalist offers, you may be able to retain more equity by paying a higher-than-usual rate of interest on the loan. (The usual rate is three percentage points above the going rate on investment-grade corporate bonds.)

Consider any covenants the venture capital firm seeks. These may require you to maintain certain levels of working capital, profit and net worth on pain of surrendering control of your company. You probably will be unable to avoid such covenants, but ask whether the venture capital firm would be willing to waive them temporarily if your company falls on hard times through no fault of its own.

To sum up: The best way to get the best deal is to do a good job of preparing for it. □



To order reprints of this article, see page 81.

ration's furniture manufacturing division had a chance to buy the division. The price was \$41 million.

The executives got \$21 million in bank loans, and the parent company provided \$14 million in exchange for preferred stock. My venture capital company and two other venture capital companies put up \$5.5 million and received convertible preferred stock that enabled them to buy 75 percent of the company. The executives and an outside promoter put up the final \$500,000.

Last year the furniture company had estimated pretax earnings of \$8.4 million. It may be sold this year, and if so, the price will probably be \$40 million. The chief executive alone would receive at least \$4 million.



# Learning To Share the Load

Many managers don't know how or what to delegate.  
Here are some guidelines.

By Donald W. Huffmire

**J**OHN HENRY PATTERSON, founder of National Cash Register Company, used to walk into his departments and order the managers to take two-week vacations.

His motive: to determine whether a subordinate had been adequately trained to take over the supervisor's job on short notice. The key to such training, Patterson believed, was delegating—providing the subordinate with the experience, knowledge and responsibility needed for a smooth transition.

Today's executives have more subtle ways of setting up a leadership escalator, but effective delegation remains one of the most difficult challenges in running a business.

There are many reasons. Delegation has a high potential for people problems. Managers may hand down too much or too little responsibility and have unrealistic expectations. Delegates may feel they are being asked to assume responsibilities for which they are not being adequately paid, or—sometimes with good reason—believe

the boss is using delegation as a front for dumping unpleasant chores on them.

The delegation process should be approached carefully, and should begin by addressing some basic considerations. Among them:

- What delegation is—and is not.
- Which functions should be delegated, and which should not.
- Why you should delegate, and why some managers will not.
- How to make sure, if you manage managers, that they are delegating.

To take these items in order:

**What is delegation?** It is far more than issuing orders and walking away with the expectation that they will be met by a specific deadline. Actually, effective delegation requires a certain amount of participation by the delegator. The manager must define responsibilities being assigned to individuals or groups, and then work with them in developing objectives, priorities and the two-way communication needed to properly adjust the process on the basis of experience.

The manager grants specific, clear-cut authority commensurate with the

objectives and establishes a climate of freedom. But the manager also determines, by monitoring performance, which individuals and groups can handle even more extensive responsibilities than those delegated to them. He provides guidance needed to help the delegates make increasingly complex decisions. Finally, the manager determines rewards and penalties, both monetary and nonmonetary, that the performance justifies.

There are two key phrases the manager uses in effective delegation. One is, "Let me have your recommended objectives." Mandating objectives is not delegation. It is just old-fashioned workplace autocracy. The second phrase is, "When can you check back with me?" If subordinates participate in establishing deadlines, they will be more committed to reporting on their progress. A third phrase managers should use as a permanent guideline for delegation: "Come to me with answers, not just problems." The alternative is reverse delegation, in which the subordinates try to evade their responsibilities by turning to the manager for all decisions.

**What delegation is not.** It is not dumping unpleasant chores on subordinates, nor is it abdication of authority or avoidance of decisions. Delegation

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does not mean loss of control or responsibilities—a manager's responsibilities include training subordinates to make increasingly complex decisions. A major objective should be to push as many decisions as possible down into the organization, where the information for decision making is most readily available.

**What should be delegated?** These functions include routine work that is of low priority but nevertheless takes large amounts of time; aspects of a job a subordinate is more qualified to handle because of day-to-day experience or technical training; activities that would help make the subordinate's work more interesting; job packages for which one subordinate can be accountable; problems or issues that require extensive analysis and recommendations for decisions, rather than immediate action; decisions that can be made more rapidly and at a level closer to the problem. The first jobs delegated to an individual should be designed to permit confidence-building successes, with more difficult and complex assignments following.

**What should not be delegated?** Don't pass along hot potatoes to get yourself off the spot. Deal personally with matters that require confidential-

ity, such as personnel problems. Beware of overloading subordinates: Retain full responsibility in situations that require broad technical, organizational and other skills that only you possess.

Do not hand on responsibility for assignments that your superior has delegated to you, and never ask a subordinate to take over a personal project not related to the company's business. Long-range planning and setting priorities for your operation are other tasks that should never be delegated.

**Why should you delegate?** Everybody wins as a result of effective delegation—the company, the manager and the subordinate. The company benefits through the increased productivity and efficiency possible when a manager is freed to concentrate on planning, staffing, organization and other major responsibilities; through reduced turnover and absenteeism and higher motivation; and through improved communications that can provide early warnings about problems.

Managers gain through reduced workloads, often finding that they no longer need to take work home nights and weekends. They have more time to do the important things thoroughly and properly, and their own career development is enhanced. Subordinates to

whom responsibilities are delegated take a greater interest in successful job performance. Their loyalty increases and their morale improves when they are given a chance to demonstrate their capability for advancement.

**Why managers will not delegate.** Delegating does not come naturally. It is natural, instead, for managers to want to do personally the work for which they are trained.

Then there are the familiar excuses: Subordinates lack the necessary experience. It takes more time to explain how to do something than to do it myself. My people are specialists and lack the overall knowledge required to make many decisions. They are already too busy. They are not ready to accept more responsibility. I like keeping busy and making my own decisions. I lose control over results if I delegate.

Such alibis have validity only in the short run. If subordinates lack experience, it is your responsibility to train them. If they are too specialized to make overall decisions, the manager must make them generalists through cross-training. If they appear too busy, you must make sure their priorities are in proper order.

If you think they are not prepared to assume added responsibilities, your training process may be inadequate or they may be in the wrong jobs. If loss of control worries you, you must develop a monitoring system. If you try to do everything because you like to keep busy and make your own decisions, you are not behaving as a manager should and are hindering your company's progress.

Other bars to delegation reflect negatively on yourself: lack of understanding of how to delegate; susceptibility to apple-polishing subordinates; fear of losing recognition; fear of taking risks; fear that a subordinate will do so well that your own position will be endangered; a martyr complex that makes you want to convince people you are overworked and underpaid; impatience with inexperienced people; a desire to avoid conflicts with subordinates or an excessive concern over details of subordinates' activities.

**Help subordinates to delegate.** Managers' performances should be evaluated three to four times a year, and one factor should be delegation. Managers who are poor at delegating should not be compensated as highly as those who are good at it. If delegation is made an important priority for all managers and part of the performance appraisal system, managers will quickly become very effective delegators, and their organizations will benefit enormously. □

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# Fight For Television's Viewing Audience

The networks have long dominated TV, but now they have to make room for some upstarts.

By Mary-Margaret Wantuck

**T**HE THREE major television networks have been the leaders of their industry for so long, racing against one another for viewers and advertisers, that they have hardly noticed the competitors rounding the turn behind them.

Now ABC, NBC and CBS say they are not terrified by subscription, pay and advertiser-supported cable, or by independents and superstations, but they are seeing bites taken out of their audiences.

And one and all are looking over their shoulders at the newest entrant in the race, the videocassette recorder.

To gain viewers, the networks have depended on variety and free access to "a whole menu of programming—news, sports, entertainment through series and specials—for almost 24 hours a day," says Ellen Shaw Agness, NBC vice president of business planning.

Advertisers have turned to the networks because of their huge audience, well over 90 percent of television households as recently as 5 to 10 years ago.

The audience is still huge, but declining. According to the A.C. Nielsen Television Index, between October, 1983, and April, 1984, the networks were capturing only 78.7 percent of the prime time audience. There have been predictions of that plummeting to 65 percent by 1990.

Independent stations now number more than 200 and cover 80 percent of the 84 million total U.S. television



PHOTO: KEN TOUCHTON



PHOTO: DAVID WOODBELL



Network executives like Marvin Mord (left) are seeing their bastions invaded by videocassette recorders, independents and cable. United Video cable chief Bob Price (above) says the relationship is "synergistic."

households. Since the mid-1970s the cable subscriber list has mushroomed from several million to 35 million, despite the fact that many major metropolitan areas are still without cable.

Viewers exercise their options. Nielsen conducted a survey of viewer habits in all television households during prime time from Monday through Sunday for a month last year. It found that 80 percent of the viewers watched network channels, 17 percent opted for independent and public stations, 4 percent turned to local and advertiser-supported channels and 6 percent selected pay cable. (Percentages add up to more than 100 because of multi-set households.)

Network executives say that the number of television households will increase steadily in the future and with it the networks' viewer base, but they are no longer the sole masters of the fast track.

Agness says network television is

most threatened by pay cable services like Home Box Office (the biggest), Cinemax and Showtime/The Movie Channel. The mainstay for all of them is theatrical motion pictures, shown generally before the networks have a crack at them.

NBC's response, says Agness, has been more made-for-television movies and mini-series.

ABC, while taking similar steps, has added three cable networks that offer viewer fare that complements its own programs. One network is targeted toward the sports-minded male market, the second is designed for a broad-based cultural audience, and the third is geared toward a strongly female daytime audience.

Even some network affiliates are getting into cable. WMT-TV, an NBC affiliate in Madison, Wis., programs and sells advertising on three of the local cable system's unfilled channels.

Network executives dismiss the inde-



pendent stations' impact on their affiliates with even more ease than they dismiss cable. Marvin Mord, vice president of marketing and research services for ABC, says the independents can no longer depend on reruns of old network programs. "Looking ahead three or four years," he says, "it's highly doubtful that independents will pose a major threat."

**B**UT THE INDEPENDENTS are taking a page from the networks' book, investing in first-run syndicated fare and expanding and improving news programming. And such independent superstations as Ted Turner's WTBS in Atlanta claim national viewership via cable because of their attractive programming—family-oriented entertainment with no sex or violence.

Independent station executives like Kevin O'Brien, vice president and general manager of WTTG in Washington, predict affiliates will become independents. O'Brien says networks will no longer pay the affiliates for carrying programs but will become program services, with independent stations bidding for their programs.

Advertisers, while not happy with the way networks make last-minute changes in program lineups, are still

buying. In 1983 ad revenues for those cable networks that accept ads totaled \$380 million; network sales stood at \$7 billion. Paul Kagan Associates, Inc., a communications consulting firm, predicts a tenfold increase for cable, to \$3.8 billion, 10 years down the road. Network ad revenues, meanwhile, will have tripled to \$21 billion, Kagan says.

However great the disparity, "cable networks are selling very aggressively and imaginatively," notes Rod Stone, national marketing director for the Cable Television Advertising Bureau. "The advertisers and their agencies are beginning to treat cable as a mainstream planning medium."

A rash of new shows and last-minute changes each season make placing ads a dicey task for advertisers, particularly if they want to focus on a specific demographic group. Cable, on the other hand, allows advertisers to reach a certain audience for more than just a few weeks or months, because they can focus on a precise segment of viewers.

Advertisers are taking advantage of this with innovative flair. Procter & Gamble is a classic example. Long a producer of network soap operas, the company is now experimenting with producing cable shows, carefully matching its commercials to its audi-

ences. For instance, commercials for Pampers disposable diapers or Ivory Snow detergent pepper "What Every Baby Knows"—a magazine-style cable show for young parents.

"The Home Shopping Show," a cable program seen on Modern Satellite Network, is described by Robert Finehout, vice president of programming, as the original "infomercial." He says companies have the opportunity "to discuss their product or service in a talk-show format."

Cable industry executives do not expect to take over. Burton Stanier, president of Group W Cable, third-largest multicable system operator, says: "Television didn't replace radio, and cable is not going to replace television. Network television is looking for numbers; cable is going for more targeted audiences. Within this framework, both can coexist very nicely."

**P**AY CABLE SERVICES like Home Box Office are having to look out themselves for the phenomenally successful videocassette recorders. The backbone of pay cable has always been uncut and commercial-free feature films. But VCRs have combined with cassette rental services to force changes on the pay services.

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In the first five months of 1984, nearly 2.3 million VCRs were sold, an 86 percent increase from the same period in 1983, according to the Electronic Industries Association. Homes with VCRs totaled 5 million in 1982. Industry analysts expect that number to grow to more than 15 million by the end of this year.

Representatives of HBO and Showtime/The Movie Channel, pay television's No. 2 firm, say research indicates that VCRs complement pay service and that VCR owners are also heavy users of pay services. But industry experts say the VCR boom is clearly going to limit consumers' willingness to buy more than one pay service.

HBO is repositioning itself by placing more emphasis on original programming—"premiere" films, mini-series and documentaries—as well as continuing "big event" sports programming and concert specials.

Network television executives do not consider VCRs a heavy threat, because, they contend, cassettes cannot replicate the wide assortment of programs networks offer. In fact, they maintain, VCRs have been instrumental in reaching viewers—such as working people who are soap opera fans—networks might otherwise miss.

Cable operators have become increasingly aware of viewer criticism—boring and repetitious programming and insensitive customer service—and are trying to do more to keep customers happy and prevent disconnects.

Arlington (Va.) Cable Partners, a cable operator, stays open until 11 p.m. seven days a week. A new phone system has been installed, along with a \$400,000 computer to handle all customer accounts and keep track of addresses, service calls and scheduling, says John Evans, Arlington's president.

But programming complaints are another matter, he explains. "What may be boring to one viewer could be exciting to another. And there's only so much creativity around."

**C**REATIVITY MAY be bolstered by a June Supreme Court ruling that sharply limits state and local authority to regulate cable programming, upholding the Federal Communications Commission's claim to be overseer in this area. And in July, the FCC limited state and local governments' regulation of the rates charged by cable operators.

Even the appearance of alternative delivery systems to cable, such as the direct broadcast satellite from which signals are beamed to a home rooftop

receiving dish, are not major competitive factors—at least for now. A study conducted by Opinion Research Corporation found that overall, "in terms of consumer appeal, cable's significantly lower installation charge and greater channel capacity gives it an overwhelming advantage over other likely systems."

Says Group W's Staniar: "While cable may not turn on your dishwasher and clean your house, we within the industry are satisfied that it is a good growing business. Viewership of cable will one day be as common as having plumbing in your house."

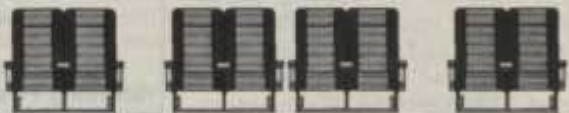
NBC's Agress admits that cable is a "nice addition to what you see on over-the-air television."

Bob Price, senior vice president of cable services for United Video, owner of two independent stations having large cable subscriptions, views it differently:

"Rather than a complement, I see cable as a facilitator for both the network affiliates, which the FCC requires cable to carry, as well as for the independents, whose signals are usually weak without cable. Although people may not want to acknowledge it, I would say there is a synergistic relationship among the three forms." □

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## Readers Use Full Range of TV Choices

**I**F CABLE TV is available in your area, you probably have it in your home. And if you do have cable or satellite TV at home, you are probably satisfied with it as a method for receiving a better picture and a variety of content.

But you are not fully satisfied with program quality.

These are just some of the findings of a reader survey that appeared in the June issue of *NATION'S BUSINESS*. The survey queried readers to see how TV fits into the business person's busy lifestyle. More than 1,400 people—60 percent of them in top management positions—replied.

Nearly 98 percent of the respondents have one or more color television sets in their homes, while 67 percent have one or more black-and-white sets.

More than 70 percent of respondents watch business-oriented programs on TV, and 42 percent say they would like to see more of these types of shows.

Most popular of the business programs watched or heard is "Wall Street Week" (produced by the Maryland Center for Public Television), with 65 percent of the respondents watching.

The other top five business shows preferred by readers include: "Biz-Net News" and "It's Your Business" (produced by the U.S. Chamber of Commerce in Washington), "Money Week" (produced by Cable News Network in Atlanta), "Nightly Business Report" (produced by television station WPBT in Miami) and "Wall Street Journal Report" (a program produced by Dow Jones in New York City).

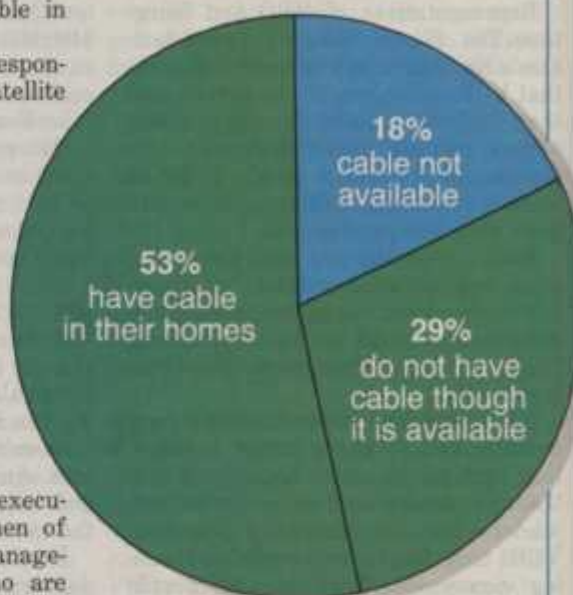
Data from the respondents indicate that independent TV stations are watched as much as any of the three big networks. Nineteen percent of the stations watched are independents. Independents are followed by NBC (18.1 percent), CBS (17.9 percent) and ABC (17.4 percent). Fifteen percent of the stations watched are cable, followed by PBS (11.7 percent) and satellite stations (.9 percent).

Fifty-nine percent of those who responded to the survey have cable in their homes. (Eighty-two percent re-

port having cable TV available in their areas.)

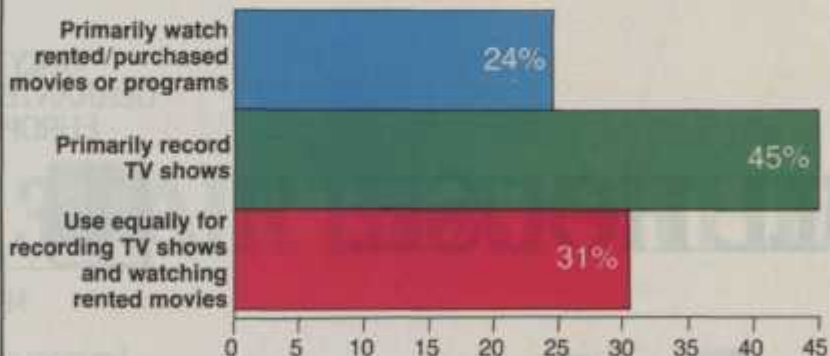
Forty-nine percent of the respondents indicate that cable or satellite TV has met their expectations overall. Respondents are quite satisfied with the alternative to network programming that cable provides as well as with the quality of reception. Although cable and satellite viewers are content with the variety of programs available to them, they still are not satisfied with the quality of programs.

Of those responding to the survey, 30 percent are presidents, vice presidents, chief executive officers or board chairmen of their firms. Others in top management include 15 percent who are general managers, managing directors or division managers. Owners or partners of firms make up 9 per-



**Cable Penetration**

### How Respondents Use Their VCRs



cent, 4 percent are financial officers, and 2 percent are other company officers. Twenty-one percent indicate they are middle management, while 6 percent indicate they are on professional or technical staffs.

Median age is 45, and median household income is \$46,729. Eighty percent of the respondents are male. Thirty-eight percent have college degrees and 29 percent have postgraduate degrees.

**A**NOTHER FINDING from the survey: Of the 33 percent who own or rent a videocassette recorder, 45 percent use it primarily for recording

shows and 24 percent use it primarily for watching rented or purchased movies or other types of programs. Thirty-one percent use their VCRs about equally for recording shows and watching rented movies.

"Business people are taking advantage of the flexibility that VCR usage gives them," comments Sharon P. Warden, *NATION'S BUSINESS* research manager, who conducted the survey.

"They are recording TV programs and watching them at a more convenient time to fit their schedules rather than having TV mold their time." □





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# The Dictates Of Work and Worship

A suit involving Sabbath employment is high on the list of Supreme Court cases that affect business.

By Tony Mauro

**W**HEN Connecticut eight years ago joined the growing number of states that had relaxed or scrapped their Sunday blue laws, the Caldor department store chain quickly took advantage of the change.

Caldor's decision to open on Sundays would not be notable, except that one of its employees, a devout Presbyterian named Donald Thornton, objected to working on his Sabbath.

His objection spawned a potentially far-reaching legal action whose outcome will be determined by the highest court in the land. Businesses could be affected not only in Connecticut but also in 28 other states that have laws or regulations requiring employers to accommodate the religious beliefs of their workers.

*Estate of Thornton v. Caldor, Inc.* will be one of a number of important business cases on the Supreme Court's agenda when it opens its fall term October 1. Among the others:

- Can unions be held partly liable for back pay when a company is found guilty of age discrimination?
- Can companies ordered to clean up hazardous waste sites escape that obligation by seeking protection under bankruptcy laws?
- Do federal securities laws come into play when a business is sold through transfer of 100 percent stock interest?
- How much flexibility can the Environmental Protection Agency exercise in granting variances to companies under the Clean Water Act?

Answers to these questions could come any time before the term's end next July.

The Caldor case points up one of the



problems that has resulted from the trend away from Sunday closings.

"Because more businesses are permitted to remain open seven days," notes Lawrence Velvel, lawyer for the Council of State Governments, "more workers face the Hobson's choice of forsaking their religious beliefs by working on their Sabbath or losing their jobs."

Seventh-Day Adventists report that about 800 of their 600,000 adherents in the United States have complained in the past four years of employment problems relating to Sabbath observance. A New York group estimates that Orthodox Jews—who may not work from sundown Friday to sundown Saturday—file 1,000 complaints a year.

Most states that have scrapped or relaxed blue laws require employers to accommodate Sabbath beliefs, and the federal government, which has entered the Connecticut case on the side of these states, has similar requirements in equal employment laws. Connecticut's law prohibits forcing employees to work on their stated Sabbath and says refusal to work then cannot be grounds for dismissal.

On the other side are retailers who

PHOTO: MIRA LAVITT—BLACK STAR



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A manager at this Connecticut store objected to having to come to work on Sundays. The result is a test of state laws that require employers to accommodate religious beliefs.

need to staff their stores on Saturdays and Sundays.

Says Eliot Gersten, lawyer for Caldor: "We routinely attempt to make accommodations and follow the equal employment guidelines, but there has to be a balance between reasonable accommodation and the need to have employees at the store on one of the busiest days of the week."

**W**HEN CALDOR BEGAN opening Sundays, it required its managers to make themselves available every third or fourth Sunday. Thornton, manager of two departments at Caldor's Torrington store, at first accepted this, unaware of the Connecticut statute's prohibition against a Sabbath work requirement.

When he learned of the prohibition, Thornton asked to be excused from Sunday duty. Executives rejected his request but offered him a transfer to a Massachusetts store that still closed on Sundays or demotion to a nonsupervisory job in Torrington that would cut his pay from \$6.46 to \$3.50 an hour.

Thornton refused either alternative, quit working for the company and filed a complaint with a state board that me-

TONY MAURO is the Supreme Court reporter for Gannett News Service.



diates or arbitrates labor disputes. The board, as well as a lower state court, sided with Thornton, but the Connecticut Supreme Court reversed. It said the law went too far in fostering religious beliefs and violated the constitutionally required separation of church and state.

While the litigation was proceeding in 1982, Thornton died at age 41, and the case might have ended there. But lawyers for several Jewish groups, fearful of the Connecticut Supreme Court ruling's impact on their adherents, asked the executor of Thornton's estate if they could carry the case forward. The executor agreed.

"We're not asking for a free ride, and we're not trying to dictate to employers," says Dennis Rapps of the National Jewish Commission on Law and Public Affairs. Orthodox Jews who decline to work Friday afternoons usually make up the time some other day or accept being docked, he explains. "It's a matter of accommodation, not preferential treatment."

Other business issues before the High Court:

**Age discrimination.** Under a Federal Aviation Administration rule, no one over 60 may remain a pilot on large commercial airliners. When the Age Discrimination in Employment Act was amended in 1978 to prohibit job discrimination against anyone between ages 40 and 70, Trans World Airlines and the Air Line Pilots Association negotiated a procedure to allow pilots approaching 60 to bid on jobs as flight engineers.

Pilots who lost out in the bidding and were forced to retire—at pensions of \$40,000 a year and more—sued TWA and the union for lost wages. A federal appeals court issued a ruling that businesses fear will tilt application of the law against employers.

The court found that TWA had willfully violated the age discrimination law by not providing flight engineers' jobs for all who wanted them—even though TWA said that it was making a good faith effort to comply and that it did not think it should be required to create unneeded jobs.

In addition, the court found that the union could not be held liable for damages, even though it had helped arrive at the allegedly discriminatory procedure.

The appeals court's finding of willful

violation meant TWA would be liable for double damages.

Complains Stephen Bokor, director of the National Chamber Litigation Center, a public policy law firm affiliated with the U.S. Chamber of Commerce: "The union shared in culpability but not liability. And we are worried that if this ruling stands, it will be a rare case that is not found to be a willful violation."



Businesses fear a court ruling affecting fliers over 60 will, if upheld, tilt application of age bias law against employers.

The U.S. Chamber has joined the case on TWA's side.

**Bankruptcy and wastes.** In 1976, the state of Ohio sued William Kovacs, alleging that he and businesses he owned were responsible for improper disposal of toxic wastes at a Hamilton, Ohio, dump site. He signed an agreement to remove the wastes, pay \$75,000

**"We're not asking for a free ride, and we're not trying to dictate to employers. It's . . . accommodation, not preferential treatment."**

in fines and refrain from future dumping.

In 1980 he filed for bankruptcy, without having complied with any part of the agreement. Ohio sought to enforce it, but lower courts ruled it was like other obligations that a business does not have to meet immediately under bankruptcy laws.

A coalition of states has joined the federal government in protesting to the Supreme Court that bankruptcy must not be used as a refuge from the laws against pollution. But Washington attorney David Norrell, an expert on environmental law, expresses the business point of view: "Having an injunction hanging over your head makes it difficult to reorganize."

**Sales of businesses.** Seagrave Corporation paid \$20 million for Vista Resources in 1980. Along with the assets of Vista, a housing products company, came 100 percent of its stock, which was not publicly traded. Seagrave brought in new management, and disputes over terms of the sale agreement broke out. Seagrave, claiming it was defrauded, invoked the protections of the federal securities laws.

A federal district court dismissed the claim, ruling that the securities laws did not apply, but an appeals court reversed, holding that they did apply.

Some businesses are concerned that involving the Securities and Exchange Commission and securities laws will reduce flexibility in business transactions.

**Water pollution.** Since passage of the amended Clean Water Act of 1977, the Environmental Protection Agency has established water treatment standards for a variety of industries. It has also developed a procedure, warmly supported by business, for taking into account special factors about a particular plant that can justify granting a variance from compliance with an industry-wide standard.

The Natural Resources Defense Council, an environmental group, challenged the variance procedure unsuccessfully in several court actions over the years, but it finally won last year before the Third Circuit Court of Appeals. That court said such variances were impermissible.

"Supreme Court endorsements of the decision," says environmental counsel Robin Conrad of the National Chamber Litigation Center, would harm "not only the chemical industry but leather tanners, pharmaceutical manufacturers, petroleum and the like."

The U.S. Chamber has asked the High Court to endorse the variance procedure, which Conrad calls "an integral part of developing industry-wide regulations."





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## Negative On Affirmative Action Plan

**T**HE Supreme Court term that ended July 5 was proclaimed by pundits as a conservative's dream because of the Court's stands on a number of law enforcement and social issues.

But in decisions affecting business, strong trends were hard to discern.

In some instances, government power over business was expanded; in other cases, especially in the antitrust field, regulation was relaxed.

Contrary to its newly burnished conservative image, says Bruce Fein, Supreme Court analyst for the American Enterprise Institute, the Court still frequently exercises "awesome judicial authority."

The decision with perhaps most significance for business was the employment ruling known as *Memphis Fire Department v. Stotts*. In that case, the Justices took a step back from endorsement of affirmative action plans, agreeing that seniority could take priority over affirmative action in court-ordered programs.

When Memphis city finances got tight in 1981, 21 white and 3 black firefighters were laid off, a proportion intended to preserve the results of a plan for increasing the number of blacks in the department.

The Supreme Court said the layoffs violated valid seniority rights of the white firefighters, "and it is inappropriate to deny an innocent employee the benefits of his seniority in order to provide a remedy."

Experts disagree on how broadly the ruling will be interpreted. "It doesn't affect voluntary, private, out-of-court agreements," says Washington lawyer Thomas Bagby, who specializes in equal employment matters. But others think the ruling's language could eventually be applied to attack voluntary affirmative action plans as well.

Fein thinks the decision has another important meaning. "A governing majority of the Court has coalesced around the view that racial preferences that extend beyond actual victims of illegal discrimination are legally dubious," he says. "Color-blind jurisprudence might in the future become a constitutional and federal statutory norm."

—Tony Mauro





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# Roadblocks to a Move

It's easier now for a unionized firm to leave, or close, but barriers remain in labor law.

By Patricia Costello Slovak

**I**T IS AN all-too-familiar situation. Profits have plummeted so low that there is doubt whether a business operation can continue. The causes can be myriad: The market has changed, foreign competition has increased, equipment and plant are antiquated, rent has skyrocketed, cost of labor and materials has jumped.

The solution could be to cut costs and stay in operation, to shut down or to relocate. When making such a decision in the throes of financial woes, employers rarely consider their various labor law obligations. But if their employees are unionized, implementing any solution can be fraught with difficulty, and the cost of failing to comply with labor laws is high.

Legalities abound. Union contracts are drawn up by lawyers, employers' compliance is determined by judges, and disputes are adjudicated by the lawyers of the National Labor Relations Board.

In the NLRB lies some hope for financially troubled businesses. Under the Reagan administration, the board's composition has changed dramatically, and in recent rulings the current appointees have expanded the options available to managers.

Suppose a company has decided to stay in business by slashing costs, but its collective bargaining agreement with a union has not expired. The employer may not change unionized employees' wages or working conditions without the union's consent. It is sometimes possible to obtain midterm concessions, as demonstrated recently in the airline industry.

If the union refuses to grant such concessions, the employer still has the option of layoffs.

Cutbacks in personnel are allowed by almost all union contracts, although



some require an employer to take certain steps first—cutting hours of work, perhaps, or terminating part-time employees. The contract generally governs the layoff procedure, and seniority generally controls the order of layoffs; most contracts allow senior employees to “bump” into lower classifications to avoid being laid off.

**I**N THE PAST FEW YEARS, there has been a dramatic increase in the number of discrimination complaints filed by female, minority and older workers in the wake of massive layoffs. The rationale: Women and minorities were hired last because of alleged discrimination and are therefore the first to be laid off, thus perpetuating the unlawful discrimination; older workers tend to be laid off in disproportionate numbers during harsh economic times because they are generally the highest-paid employees.

No definitive ruling on such claims has yet been made by the Supreme

Court, but an employer that must lay off a large number of workers would be wise to analyze the impact of its actions on employees who are in protected classes. If a disproportionate number of minority, female or older workers will be laid off, the employer should be certain that the nondiscriminatory basis for its actions is well documented.

What about complete or partial termination of an unprofitable operation? Complete termination during the life of a collective bargaining agreement is relatively risk-free from a labor relations perspective.

The Supreme Court ruled in the 1965 *Darlington Manufacturing* case that an employer has the absolute right to go out of business, even if it does so for anti-union reasons; that remains the law today.

And if the employer decides to terminate only part of its operation? When a maintenance firm canceled its contract to provide cleaning services for a nurs-

PATRICIA COSTELLO SLOVAK is a partner in the New York law firm of Burns Summit Rovins & Feldesman and specializes in management-labor relations.



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ing home because it was losing money on the contract, laid-off workers brought suit. In 1981, in the *First National Maintenance* case, the Supreme Court ruled that an employer's termination of a distinct part of its business is akin to going out of business completely; hence, the company had no obligation to bargain over the decision.

**T**HE NLRB in 1982 ruled on a case involving relocation of a business during the term of a union contract. Milwaukee Spring, Inc., had a unionized plant in Milwaukee and a nonunion plant in McHenry, Ill. The union plant was experiencing serious losses and was burdened with old equipment and high labor costs. The nonunion plant had newer, more efficient equipment and lower labor costs.

In an attempt to cut its losses, the company began thinking of relocating its Milwaukee operation to the McHenry plant. It told the union it would not do so if it got wage and benefit concessions. After the union turned it down, it announced the move would take place.

The union filed unfair labor practice charges. The NLRB held that the employer was prohibited from relocating its operation during the term of its union contract without the union's consent, if (as in *Milwaukee Spring*) it was relocating to avoid high labor costs. However, after the employer appealed the decision to the U.S. Court of Appeals for the Seventh Circuit, the NLRB took the unusual step of asking the court to return the case to the agency for reconsideration.

Last January, the NLRB issued a new decision in *Milwaukee Spring*, ruling that an employer is not prohibited from relocating its operation in mid-term even if the primary reason is to avoid high labor costs, as long as the collective bargaining agreement does not specifically prohibit relocation.

The NLRB found it unnecessary to decide whether the employer was required to bargain over the decision to relocate, since the employer had, in fact, done so.

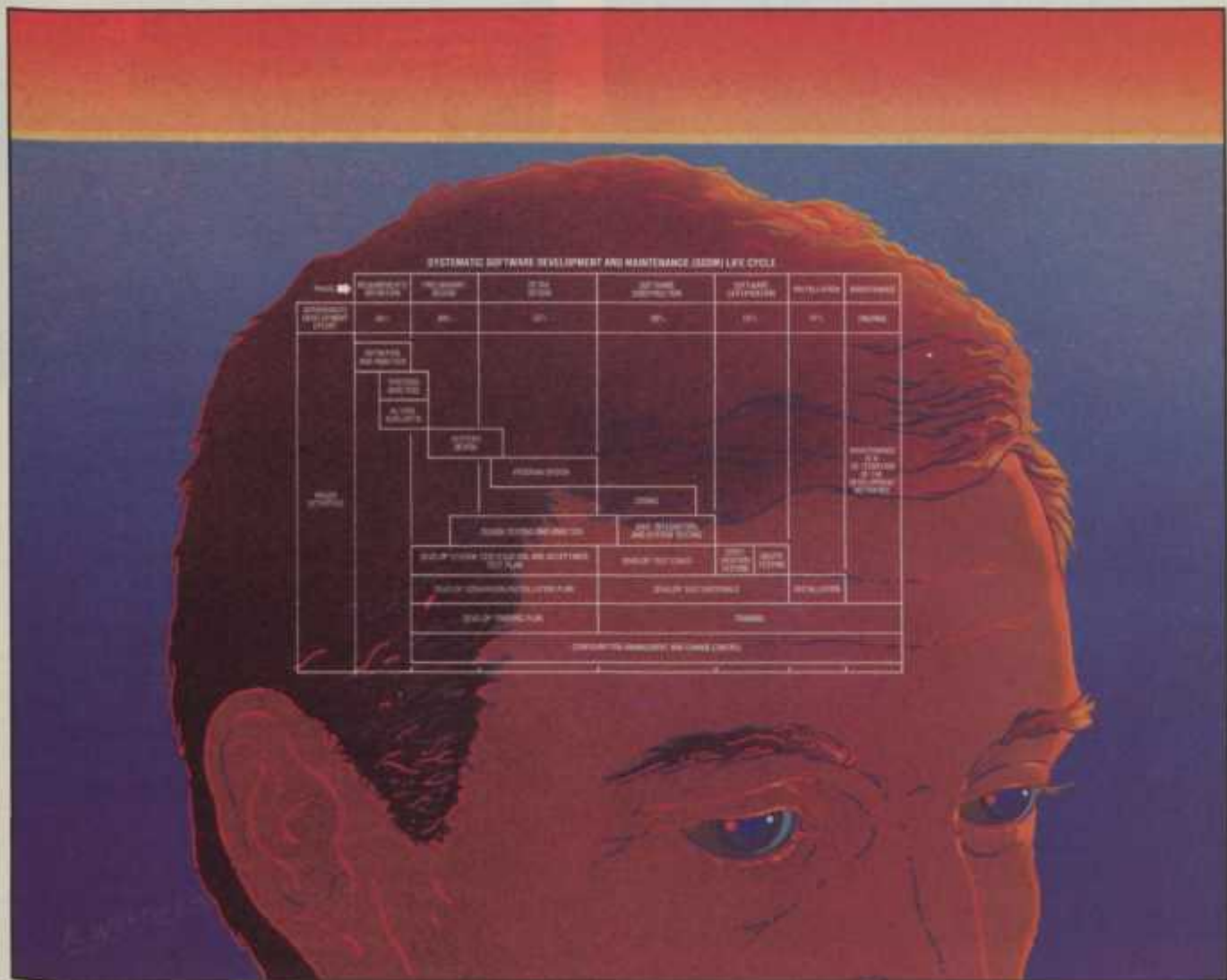
Going further, the NLRB held that the layoff of union employees that necessarily accompanied the relocation was not, in and of itself, unlawful discrimination against the union.

Subsequently, the NLRB retrieved another case from a court of appeals and, citing the Supreme Court's *First National Maintenance* decision, reversed its previous ruling in the case. The employer, Otis Elevator Company, had discontinued a research and development operation and consolidated it with an operation at another location. The NLRB held that the employer was not required to bargain over this decision because labor costs, although a

continued on page 48E



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# A Swarm of Tax Reform Proposals

Should a new system be FAST or Fair? Here's a guide to keep you from being caught Flat-footed.

By Peter A. Holmes

ONE TAXPAYER complained that it took him 200 hours—the equivalent of five full work weeks—to prepare his tax returns. Another said he was making too many business decisions on the basis of tax considerations rather than sound business judgment.

A woman became so disenchanted with the tax system, she said, that several years ago she simply stopped paying taxes.

These were among the many views aired recently at what amounted to a federally sponsored gripe session in the auditorium of the Minneapolis Public Library. It was one of several such meetings the U.S. Treasury Department held across the country to gather grass-roots opinion on possible tax reforms.

The hearings are part of Treasury's research to carry out its mandate from President Reagan to recommend in December a blueprint for reforming the 30-year-old tax code. It will then be up to the President to decide which recommendations, if any, to forward to Congress.

Treasury officials presiding at the hearings have not been surprised to learn that, in general, the American public believes the present U.S. tax system is too complex, too confusing and biased to favor some groups of taxpayers.

"The federal income tax system is deeply flawed," says Charles McLure, the Treasury official in charge of the first systematic effort to overhaul the tax laws.

Support for the existing tax code is eroding. The Internal Revenue Service estimates that revenues lost to tax cheats went up 800 percent between 1976 and 1981. Uncollected revenues in 1981 totaled an estimated \$97 billion—more than that year's federal budget deficit.

The tax reform discussion has been complicated by the presidential campaign debate. Democrat Walter Mondale says a 1985 tax increase to reduce the budget deficit is inevitable, whoever wins the presidency. President Reagan says he will veto any bill to increase income tax rates but is interested in legislation that would make the tax system simpler and more equitable.



At a public hearing, Deputy Assistant Treasury Secretary Charles McLure, Jr., and Secretary Donald Reagan discuss a tax system McLure calls "deeply flawed."

Says Reagan: "For him [Mondale], raising taxes is a first resort. For me, it is a last resort."

There is concern among business groups in Washington that tax reform legislation could be a Trojan horse, enabling Congress to slash the deficit by increasing revenues and thus avoid politically painful budget cuts.

How would a tax increase sit with the public? Only 7 percent of those responding in a nationwide Gallup Poll preferred the option of "mostly higher taxes" as a way of reducing budget deficits. More than half favored spending cuts. One in three would cut spending and raise taxes in equal amounts.

There is already a wide range of reform proposals to choose from, even before Treasury makes recommendations that will probably be the centerpiece of tax reform if the President is

re-elected. These proposals carry names like FAST, Fair, Flat, SST, PCT.

While differing greatly on details, all supporters of these proposals agree on two basics, says Sen. William Roth (R-Del.), co-author of the 1981 across-the-board cut in personal income tax rates: "The equity of the existing tax system has vanished, and high marginal tax rates discourage savings and inhibit growth."

The proliferation of exclusions, deductions and credits—more than 100 tax preferences in all, many intended to benefit the middle class—has shrunk the tax base. That, says Charles Walker, chairman of the American Council for Capital Formation, has undermined the public's confidence that persons earning similar incomes are paying similar amounts in taxes.

Six major tax reform proposals are



now before Congress. Three of them reflect growing support for the concept of rewarding savings. This is the so-called consumed income approach to tax reform.

1. The super-saver tax plan (SST), sponsored by Roth, would:

- Exempt from tax up to \$20,000 per couple in savings.

- Retain tax indexing (scheduled to take effect January 1). Without indexing, taxpayers would be pushed into higher brackets as inflation boosted wages and salaries but not real buying power.

- Broaden the tax base by eliminating most tax preferences.

- Retain deductions for mortgage interest, charitable contributions, personal business expenses and some medical expenses.

- Tax income at three or four rates, in a range between 15 and 35 percent.

Roth is still developing proposals for changes in business taxes.

2. The progressive consumption tax (PCT) plan sponsored by Rep. Cecil Heftel (D-Hawaii) would:

- Tax income consumed. The tax base would be determined by subtracting savings and repayment of debts from total income; rates would be set to produce the same amount of revenue that the current tax system produces.

- Eliminate most tax preferences.

- Retain deductions for home mortgage interest, state and local income taxes, charitable contributions and some medical expenses.

- Replace income taxes on business with a tax on dividend payments to shareholders.

3. The Flat tax plan, sponsored by Sen. Dennis DeConcini (D-Ariz.) would:

- Exempt dividends, interest and capital gains of individuals from tax.

- Tax individual and business income at 19 percent.

- Eliminate all tax preferences for individuals except the exemption for employer-paid health and life insurance.



Attorney James Lewis pledges the American Bar Association's support for tax reform.

- Eliminate the distinction, for tax purposes, between corporations and other kinds of businesses.

- Eliminate the corporate minimum tax and deductions for depreciation, the research and development credit, foreign sales corporations, interest payments, the depletion allowance and the foreign tax credit.

- Permit immediate expensing of assets, travel and entertainment expenses, and costs associated with oil and gas drilling.

More traditional approaches to tax reform would keep the current system of taxing income but would broaden the tax base by eliminating many tax preferences and reducing tax rates. The three leading proposals:

1. The Fair Plan, sponsored by Sen. Bill Bradley (D-N.J.) and Rep. Richard Gephardt (D-Mo.), would:

- Tax income at three rates—14, 26 and 30 percent.

- Increase by 50 percent the top rate on capital gains.

- Repeal indexing.

- Limit to 14 percent that amount by which deductions can reduce taxable income. For example, mortgage interest payments of \$10,000 are now worth up to \$5,000 in tax savings. Under the Fair tax plan, they would be worth only \$1,400.

- Eliminate the deduction for state and local income taxes, the two-wage-earner income deduction, dividend exclusion and the exemption for employer-paid medical insurance.

- Allow medical deductions only for expenses above 10 percent of adjusted gross income.

- Retain deductions for home mortgage interest, state and local property taxes and charitable contributions, the exemption for general obligation bond interest and the earned income credit.

- Exclude from adjusted gross income IRA and Keogh Plan contributions and Social Security payments to low-income persons.

- Tax corporate income at 30 percent.

- Eliminate investment tax credits.

- Lengthen the depreciation period substantially.

- Repeal the R&D credit, foreign sales corporation and depletion allowance provisions of the tax code.

2. The Fair and Simple Tax (FAST) sponsored by Sen. Robert Kasten (R-Wis.) and Rep. Jack Kemp (R-N.Y.) would:

- Tax wage and salary income at 25 percent, with a wage exclusion that makes the effective rates 20 and 28 percent on lower and middle incomes. (The 25 percent rate for upper incomes compensates for lost preferences and keeps the tax burden at its current level for all income groups.)

- Tax investment income at 25 percent.

- Index for inflation the personal ex-



Sen. Bill Bradley (D-N.J.) tells a Senate Finance Committee hearing about his Fair Plan to lower income tax rates.



Sen. Robert Kasten (R-Wis.) explains the merits of FAST, an alternative Republican proposal to cut tax rates.



emption, the zero bracket amount, the capital gains tax and a proposed employment tax exemption.

- Eliminate the deduction for state and local (except property) taxes, the two-wage-earner deduction and dividend exclusion. Phase out the special treatment of capital gains over 10 years. (Capital losses would be fully deductible.)

- Retain deductions for home mortgage interest, personal interest expenses, real property taxes and charitable contributions.

- Retain the deductions for IRA and Keogh Plan contributions, the one-time homeowner capital gains exclusion and the exclusion from taxable income of Social Security payments to low-income persons.

- Tax corporate income at 30 percent.

- Eliminate the investment tax credit, foreign sales corporation and depletion allowance provisions.

- Retain the existing cost recovery system, foreign tax credits and foreign income tax deferral.

- Reduce the corporate capital gains tax from 28 to 20 percent.

- Tax small businesses at 15 percent on the first \$50,000 in income and allow up to \$10,000 in assets to be expensed each year.

3. Flat-10, sponsored by Rep. Mark Siljander (R-Mich.), would:

- Levy a 10 percent tax on income.

- Grant a general amnesty for delinquent taxpayers over a three-year period.

- Retain popular tax preferences while eliminating most others.

- Not change the existing corporate tax system.

One of the most vexing questions in reforming the tax code, says Senate Finance Committee Chairman Bob Dole (R-Kans.), is what transition rules are needed if reforms are to be implemented fairly.

Proponents of sales taxes say making small changes in the existing tax code and gaining whatever additional revenue may be required from new or increased sales taxes would minimize the transition. Sales taxes could include a European-style value-added tax, a national sales tax, selected excise tax increases on luxury goods, or taxes on energy consumption. Specific proposals have not yet been introduced in Congress.

Critics of sales taxes fear that over time Congress will raise such taxes repeatedly. Walker, a leading proponent of sales taxes, acknowledges this problem and suggests that some constitutional limitation on Congress' power to tax would have to be enacted.

At congressional hearings in August, support for tax reform came from James Lewis, chairman of the American Bar Association's tax section. He

## The Impact on You

How various tax reform proposals might affect three families.

Tax Liability	Present Law	Flat Tax (DeConcini)	Fair Tax	FAST Tax
Single No dependents \$35,000 salary Renter	\$7,083	\$5,871	\$6,407	\$6,400
Married, two dependents \$75,000 salary (two wage earners) \$10,000 other income Homeowner	\$10,308	\$12,669	\$14,570	\$12,775
Married, no dependents \$100,000 salary \$15,000 investment income Homeowner	\$19,570	\$17,727	\$23,902	\$21,306

Source: U.S. Chamber of Commerce Economic Policy Division

pledged that group's support for "drastic action" to simplify the tax laws. Leaders in the accounting profession have made similar pledges of support.

At the same hearing, groups seeking to preserve their tax preferences also testified. Among those heard were representatives of home builders, dealers in tax-exempt municipal bonds, higher

education and charitable organizations.

The ultimate issue, says Donald Alexander, a former IRS commissioner and chairman of a U.S. Chamber of Commerce tax alternatives task force, "is how the general interest is best served. We can stand some complexity and disruption in moving to a simpler system. That is the price of progress." □

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# Making Government More Businesslike

Three experts say what is needed is better management, incentives for efficiency—and taxpayer pressure.

**I**N ITS monumental report spotlighting potential savings of \$424 billion in government spending, the Grace Commission, made up of top executives from private business, said the bulk of the costly inefficiencies it found were due to "system failures and personnel mismanagement" that would not be tolerated in business.

Why is government so unbusinesslike? NATION'S BUSINESS put that question to three businessmen, each of whom has studied the government from a different angle—one from a seat in Congress, one from a job in the executive branch and one from a post on the Grace Commission itself.

In summary, they agree that the government lacks effective management aimed at innovation, productivity and economy, that its personnel systems do not provide incentives for bureaucratic efficiency, and that taxpayers are not organized enough and vocal enough to force Congress to reduce spending.

Rep. Ed Zschau (R-Calif.) was elected to Congress in 1982 from the district that contains Silicon Valley, the area filled with high technology firms; he is the founder of a highly successful computer disk memory manufacturing company. Gerald Carmen left Manchester, N.H., where he operated a chain of auto service centers, in 1981 to head the U.S. General Services Administration; in three years there he won high praise for reducing costs and improving services, and he is now U.S. representative to the United Nations organizations in Geneva. J.P. Bolduc, a senior vice president of W.R. Grace & Company, and a former assistant secretary of Agriculture, was chief operating officer of the President's Private Sector Survey on Cost Control, the formal name of the Grace Commission.

Their answers, provided separately, are grouped together.

**What would it take to make the government more businesslike?**

**Gerald Carmen:** "It took this government 200 years to get where it is today, and nobody is going to fix it in one year or two years or three. We have certainly made progress in the first three

years of this administration. But progress comes by inches."

**Ed Zschau:** "In business there has been a revolution in the last 15 or 20 years—the rise of management by objectives, with specific objectives being enunciated for each manager and that manager then working with his subordinates to establish objectives that relate to his. The same kind of management could be useful in government."

**J.P. Bolduc:** "The federal government has 332 incompatible accounting systems, each with different standards. A president cannot put his finger on the government's pulse and learn what is happening financially because every system is different."

**Should the federal government have a different structure?**

**Zschau:** "In government it is considered bad form to let your budget go unspent at the end of the fiscal year, so there is frantic buying at the end of the year to make sure you have spent it all."

"In a well-managed business, you have an incentive system. People are rewarded for being efficient. There may even be a formal profit-sharing system or stock purchase program, so the better the company does the better the individuals do."

"If you had a compensation system in the federal government that related to how efficiently you achieved your objectives, how much of your budget you left on the table while still achieving them, you would have the same sort of incentives."

**Carmen:** "Efficiency in government is like profit

in the private sector: It is what you do things with. Poor execution, not poor policy, is what brings down administrations. Execution is government's blind side."

**Bolduc:** "Not many people on Capitol Hill have the intestinal fortitude to do what's right for America. They respond to interest groups. The people who speak out are getting what they want. The others—who are patriotic, hard-working and sincere, who pay their taxes—are saying and doing nothing. Somehow we have to reach out to those people and form groups that begin to speak out. I am appalled at how little the American people know about what really goes on in government."

**Carmen:** "I can tell you from my experience at the GSA that the problem in government is not so much structure as it is who you put in charge and what you expect of them."

"We need to bring into government different kinds of people from those brought in now. There is a saying, 'Keep an expert on tap but not on top.' In many cases, though, finance experts, academics and think-tank people are put in charge of government operating units. We need 'the pickers and packers' in charge, in order to get things



Rep. Ed Zschau would reduce Congress' pay if it voted for deficits.



done. They are the people who do the work, who get the goods out the door."

**Bolduc:** "The Grace Commission looked at the 7,500 senior executives in the federal government who are at the \$85,000 level and above. We decided that range is about 50 percent overloaded, so we recommended that if the government wants to attract and retain good, competent people, it should pay them not \$65,000 a year but \$90,000 a year instead, cut the number of senior executives in half and make them work 40 hours a week."

**Zschau:** "It is fair to say that whenever you have an operating unit that gets beyond a certain size, it gets past the point of improving efficiency and into the region of diminishing returns."

"The very successful companies—Hewlett Packard, for example—have set up many divisions. They have done so not only to be more efficient, but also to get the incentives very close to the ones actually making decisions. Someone could be, say, a division manager and have great responsibilities at a very early age."

#### Can Congress do anything to improve the situation?

**Zschau:** "Congress? We won't cut the growth of our own administrative budget. Committee staffs have grown, and we create new committees all the time. The incentives for elected officials are just as perverse as those for the bureaucrats. If you can create a new committee, if you can expand your office, then your ability to be a bigger deal in Washington or in your congressional district is enhanced."

"If we could just say that there are some perks a bureaucrat can get only if he is able to control the size of his own budget, accomplish more for less—or if we could say that there would be a reduction of a percentage point from each member of Congress' pay for every percentage point of the federal budget that is in deficit..."

**Bolduc:** "In this democracy, we get precisely the kind of government we deserve. There are 86 million taxpaying Americans who are not organized like the do-gooder

outfits, the Ralph Naders of the world. When the commission recommended that military commissaries in this country be placed in the private sector, saving the taxpayers \$785 million a year, we received 100,000 letters. That's organization! People in Congress pay attention to what they hear on the phone and see in letters, and that's the way they vote. We, the taxpayers, haven't done anything, but those who want more and more at our expense have."

**Carmen:** "The Grace Commission re-

interested only in evolving some sort of policy, not in its execution."

#### What changes are necessary?

**Carmen:** "We need a fundamental change in personnel policy that promotes productivity and achievement. Personnel is our biggest expense. If we cannot control our No. 1 cost item, then everything else we do won't make much sense."

"I have always been amazed how a person in government who would not lend you \$10 of his own will do something for you that costs \$10,000. I used to tell our people at GSA, 'You've got to think of money as if it were your own and spend it that way.'"

**Zschau:** "I believe strongly in democracy, so I take the good with the bad. The bad part is that without any kind of constitutional amendment to require a balanced budget, the way one makes sure that one's re-election chances are enhanced is to give everybody everything they want."

"Taxpayers don't want to pay taxes, so we say, 'O.K., we won't raise your taxes.' The various interest groups want their specific programs,

and we don't want to say no to any of them. That is why we wind up with these enormous deficits. There is no countervailing force right now."

**Bolduc:** "It costs \$4.20 for the Department of the Army to issue one payroll check. The private sector does it for a dollar. There are 500,000 jobs in the federal government that carry out commercial functions and activities that ought to be in the private sector."

"Why should the federal government have laborers, custodians, boiler operators, carpenters, painters? That can all be contracted out. An average proofreader at the Government Printing Office makes \$32,500 a year. An average proofreader in the private sector makes \$12,000 a year. How can you argue with figures like that?"

"I have always believed in the great spirit of the American system that says, this is the land of opportunity, and you can be anything you want to be if you are willing to work hard. But I am concerned that the standard of living that I am going to pass on to my four children will not give them that kind of opportunity."

—Harry Bacas



Gerald Carmen told employees of his agency to spend U.S. money "as if it were your own."

port is a super job, and [Chairman] Peter Grace has done a great service for the country. The report says some \$400 billion worth of savings are to be had. Then Congress starts arguing about whether that is 400, 200, 100 or 50 billion!

"To my way of thinking, we ought to go get it, whatever it is. It will probably turn out to be larger, not smaller."

"But Washington has a way of getting caught up in the thought process. People here are bright, but they are



J.P. Bolduc says taxpayers must organize for protection against special interests.



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continued from page 40D

factor, were not determinative in the decision.

What are employers to make of all this?

On the one hand, they should expect unions to demand an explicit ban on relocation in future collective bargaining.

On the other hand, the NLRB decisions free them to analyze their operations honestly and to consider relocating operations for lower labor costs.

Relocation of an operation is an expensive proposition, and decisions to move are not made lightly. Contrary to fears expressed by organized labor following the NLRB's decisions, employers are not likely to rush headlong into relocations simply because the NLRB has now said it is not unlawful to do so.

**E**VEN THOUGH employers have broad discretion to completely or partially terminate or relocate their businesses, they still have important legal responsibilities in such situations.

In the *First National Maintenance* case, the Supreme Court said that an employer must bargain over the effects on unionized employees of a decision to close or relocate. In such bargaining, a union generally demands extensive severance pay, continuation of insurance and pension contributions, retraining funds, transfer rights and the like.

The union has the right to obtain information from the employer—including financial information—that will enable it to bargain effectively. The information disclosed must be accurate. Recently the Securities and Exchange Commission announced that the truthfulness of public companies' disclosures to labor unions is within its purview.

In addition, the employer must engage in effects bargaining at a time when the union still has some bargaining power; an offer to bargain over effects the day before the plant closes will not be considered sufficient.

The practical problems inherent in this requirement are obvious. An employer may wish to keep its plans secret from its investors and customers, for example. And effects bargaining can be expensive. Although an employer is not obligated to agree to any of the union's demands, it may decide to do so in order to avoid a work stoppage or sabotage as the plant winds down.

The penalties for failure to comply with the labor laws can also be expensive.

In *Milwaukee Spring*, for example, the NLRB initially ordered the company to maintain the *status quo* at its Milwaukee plant—a remedy also available to the NLRB if an employer fails to engage in effects bargaining. The more typical remedy, however, is a bargaining and back pay order that re-

quires the employer to pay its employees while it bargains with the union.

Other legal traps await the unwary employer. There is the possibility of expensive employment discrimination claims, as discussed above. And an employer that has been contributing to a pension plan in behalf of its employees may face liability upon termination of business.

If a multi-employer pension plan is involved and the plan is underfunded, the withdrawal liability can be significant. A number of smaller employers have discovered that they cannot afford

to go out of business because that liability is so onerous. If the plan is a single-employer plan, the termination liability is less. However, all accrued benefits become fully vested when the plan is terminated, resulting in a potentially large expense for the employer.

Termination of pension plans has become an important part of the cost of shutting down, and a company that ignores the potential liability is not making a fully informed decision—any more than it is if it ignores the problems involved in other attempts to cut its losses. □

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Brian Edwards (left) and Bert Kronfeld devise lighting, video and sound systems aimed at coaxing customers to spend more in restaurants and lounges.

## Making the Moods That Make Money

Imagine you are a single male having a drink in a restaurant lounge. You are a little uptight, maybe even shy. The Barry Manilow music in the background makes you feel mellow. Before you know it, Manilow has been replaced with something zippier. You begin to feel loose and energetic. Forgetting your shyness, you start a conversation with the fellow next to you.

The music builds up. You're feeling good; you know you look reasonably handsome in this lighting. You and your new friend spot a couple of young women who interest you, and when, courage up, you ask if you can join them, they welcome your company. You buy drinks all around, and the four of you talk awhile. The music shifts to a mellow mood again. You and your friends decide you are hungry and move into the restaurant for dinner.

When the evening is over, you realize—not unhappily—that you have spent a lot of money.

That is what Wavelength, Inc., is all about. The El Segundo, Calif., firm designs music, lighting and video systems for restaurants and lounges to create moods that induce people to buy food and drinks. One lounge the firm worked with was getting \$5,000 a week in liquor sales. After Wavelength installed

a \$100,000 system, says Wavelength Cochairman Brian Edwards, sales rose to \$20,000 a week.

"You do anything that you can to try to break down the barriers that keep people from talking to each other," Edwards says. The right lighting, for example, can make people look better and give them confidence. The right music can loosen inhibitions. Videotapes can be the incentive that keeps a traveling businessman in a hotel lounge instead of spending his money someplace else.

Wavelength has installed systems in nightclubs from Switzerland to Australia. It has created at-home systems for celebrities like Michael Jackson. And it has designed "entertainment environments" for restaurant chains like the Red Onion, as well as for Marriott Hotels and Princess Cruises.

When Wavelength outfits a ship, its people sail with the vessel, making the installation at night while passengers sleep. "A ship is on a schedule," says Edwards, "so we don't have the luxury of saying, 'Hey, would you leave it here a couple of days?'"

Edwards, 33, dropped out of college in the early 1970s to work for a small chain of stereo stores in Los Angeles. He thought he had convinced the firm to let him launch a separate division

selling small entertainment systems to individuals and discos. But when his employer backed out, Edwards left to start his own firm, Creative Audio and Lighting Systems.

He was working on an installation for Dillon's, an elaborate entertainment complex in the Los Angeles suburb of Westwood Village, in 1976 when he met Bert Kronfeld, who had been brought in to install a video system. Kronfeld, who had grown up in his family's television repair business, and Edwards decided that a merging of their talents was in order, and Wavelength was born in 1977. Kronfeld, 38, is cochairman, and Ron Goldberg was recently brought in from the banking industry to be president.

Although they worked on some glamorous night spots, they found there were too many ups and downs in doing jobs one by one. To "smooth the ripples," Edwards says, they adopted a strategy of going after restaurant and hotel chains, a plan that brought them \$5 million in sales in 1983, with \$7 million expected this year.

But finding quality video software has always been a problem; a violent Mick Jagger tape just will not do when parents are waiting with their kids to eat a hamburger. Early this year, Edwards and Kronfeld launched Wavelength Video to fill the vacuum. To head the effort, they hired Roberta Perry, 36, who had been director of entertainment for a restaurant chain.

Perry obtains licenses for existing video products from recording companies and also produces new ones. They are reassembled on tapes in programs designed to suit the demographics of a given restaurant or lounge. "It is really psychology in a way," admits Edwards, adding: "We have borrowed a lot of theater to pull this together."

—Sharon Nelson

## Engineering That Serves Medicine

As a child, Dane A. Miller was so fascinated with mechanical design that no toy was safe from being taken apart and put back together again, its operational secrets unveiled.

Then, in high school, he became fascinated with the sciences, too, and toyed with the idea of going into a field allied to medicine. Subsequent education and work combined both interests: a degree





PHOTO: MARK KLEINBERG

**Biomet makes innovative artificial joints for hips and knees, using machines like the one behind President Dane Miller.**

um alloy in hip and joint construction. It has designed products to grapple with the problem of long-term loosening of a joint's socket due to loss of adhesion from bone cement. Being readied are products that will eliminate the need for bone cement in both knee and hip.

About 40 percent of Biomet's sales volume is international. It recently acquired Orthopedic Equipment Company, which has manufacturing plants in England and Wales. And since 1981, Biomet has been in the European market with a flexible, plastic, zipper-like wound-closing device called Dermizip. Although it closes wounds more slowly than stapling, Dermizipping is faster than suturing, and the device is relatively easy to remove. Unlike the other two methods, it leaves almost no

noticeable scarring.

Miller, who sees a \$500 million-a-year international and domestic market for Dermizip, is eager for the Food and Drug Administration to approve its use in the United States.

If Miller had to do it all over again, would he? Absolutely not, he responds quickly. "It was grueling physically," he explains. "Then there was the mental pressure of trying to avoid the pitfalls that beset many new businesses."

He says with a trace of wonderment: "Looking back, I don't know how we accomplished what we did. I think it would be impossible to do it again."

—Mary-Margaret Wantuck

## How To Clean Up Unsightly Overhead

While employed in the vinyl roof-coating business in Minneapolis in the early 1970s, Gordon Hamilton was often asked the same question when he finished a job: "Now that the roof is taken care of, how are we going to clean the water stains off our ceiling?"

There was no suitable way to clean the acoustical ceilings that had made their advent in offices in the early 1950s. Scrubbing the soft, fragile tiles caused them to crumble, and sponging them with conventional detergents often added spots and streaks.

As an alternative, maintenance crews began to paint the tiles, but this impaired their acoustical and fire-retardant qualities. Finally, most companies chose simply to replace the tiles—at considerable cost.

"Everywhere we would go, there was a different type of acoustical ceiling with different problems," Hamilton recalls. He saw the potential for an acoustical tile cleaning service and began to experiment with various cleaning solutions and techniques.

Around the same time, a Latvian immigrant named Anton Erins was cleaning windows and walls in homes in Los Angeles. One day, a customer asked him to try to purge a soiled acoustical ceiling. By combining chemical additives with a cleaning agent, he hit on a solution. Dirt was dissipated through an oxidation-reduction process that returned the tiles to their original color without agitation or pressure.

While on vacation in California in early 1977, Hamilton saw a parked car in

**Companies once replaced acoustical ceiling tiles when they became soiled. But Gordon Hamilton found a way to clean them instead—at much lower cost.**



PHOTO: MARK KLEINBERG

in materials science from the General Motors Institute and master's and doctoral degrees in biomedical engineering from the University of Cincinnati, followed by jobs with firms that designed and manufactured orthopedic equipment.

In 1977, three years after graduate school, Miller was bitten by the entrepreneurial bug. He and three partners formed Biomet, which produces and distributes surgical implants and orthopedic support devices. Miller is the firm's president.

Biomet, headquartered in Warsaw, Ind., an orthopedic center, realized only \$17,000 in sales in its first year. But since then, revenues have grown to \$7 million in 1983. Biomet now has 450 employees, compared with the eight—the four officers and their wives—at the start.

Miller, 38, attributes this phenomenal growth to "being attentive to the market's future technical needs, responding very quickly with new products and developing a distribution system that sells directly to the hospitals, not through a secondary distribution center."

Miller, named Indiana's 1984 Small Business Person of the Year by the U.S. Small Business Administration, believes that sensitivity to employees' needs has also contributed dramatically to Biomet's rise. The company encourages individuality and innovation and aims for streamlined decision making. Biomet went public in 1983, and most of its managers are shareholders.

The company was the first in the industry to use a fracture-resistant titani-



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Van Nuys, with a sign on it that offered ceiling cleaning. Erins was at work outdoors nearby and Hamilton struck up a conversation with him. They complemented each other well: Hamilton, who had dabbled in promoting other people's small businesses and had experience in chemical cleaning and sanitation; Erins, a born tinkerer, content to labor in cleaning services.

They began to talk business, and a year later, they reached an agreement. Hamilton would pay royalties on cleaning solutions that Erins had developed. Erins would continue to operate his own cleaning service, collect royalties and experiment with cleaning processes. "My thing is doing my work," he explains. "I am not a promoter."

Hamilton started a ceiling cleaning dealership network, Acoustic Clean, basing it in Minneapolis and selling his first dealership in 1978. The network, being converted to a franchise operation this year, now boasts more than 300 dealers throughout the world, including the United States, Canada, Europe, Australia, Central America and the Middle East. Revenues for the franchisor are expected to be near \$1 million this year.

Hamilton says Acoustic Clean has grown dramatically because its process "works wonders" and offers huge savings. In some cases, he says, cleaning can be done at 10 to 20 percent of tile replacement costs and about one third the cost of a professional paint job. "We've done away with unsightly overhead," he quips.

In the last few years, the company has developed 15 cleaning solutions, enabling it to clean almost any type of acoustic ceiling. The process has been adapted to include light fixtures, metal strips and vinyl-covered walls. According to Hamilton, the service has been particularly useful to hospitals, restaurants, hotels, schools and offices.

In summing up his low-profile business, Hamilton says: "It's like any other job that no one wants. If you can get into a business that no one else is in, you've got room to grow."

—Jerry Ylinen

## A Man With a Plan For Plant Layouts

Robert MacLatchie, an electrical engineer, was working for RCA in Camden, N.J., during World War II when his boss asked him to hire "someone" to do floor plans for 3.5 million square feet of plant area. MacLatchie thought it was a one-man job, but he soon found out differently.

Six months later, he was in charge of a plant layout staff of 60. It was an entirely new field for him, and in it lay the germ of an idea that would lead him to found a business of his own.

At RCA, architects and engineers not only laboriously made drawings of plant floors but also made templates representing every piece of equipment and furnishings. The templates were made of construction paper and stapled to the floor plans to create the needed picture. But once a template was stapled down, it was hard to move it when a change was wanted, and the paper tore easily. "Better materials for layout planning were needed," MacLatchie says.

MacLatchie left RCA on V-J Day in 1945 to go into consulting; he intended to concentrate on automation design. But he had become known for his plant layout work, and that is what businesses called on him for. Companies liked the layout planning tools he had begun to develop, and when he decided in the mid-1950s to give up consulting because he had tired of the travel involved, they asked him: We have people who can do the layout work; why don't you sell us the tools?

He had started to use Mylar instead of paper. The DuPont plastic was translucent, meaning that overlays and underlays of a plant's overhead and underfloor utility systems could be used with the basic floor plan, for three-dimensional planning. Using an underlay, for example, a facilities engineer could see what the water system looked like and could plan accordingly. Also, Mylar was durable—it would not tear like paper—and could be put through a blueprint machine without blocking out the ultraviolet light.

MacLatchie launched a business, PlanPrint, which got its first customer in 1958. MacLatchie continued to refine his materials. He had tried transparent tape to hold templates in place. But he needed something re-usable, so he invented a pressure-sensitive adhesive that permitted lifting the templates from a plan and moving them around again and again. (Large plants typically make a major rearrangement every 2½ years, he says.)

He also devised a way to add translucent color to the Mylar so templates could be color coded according to function. For example, machinery is green, workbenches are yellow, conveyors are



With Robert MacLatchie's plant-floor planning system, colored Mylar pieces can be moved when a floor layout is changed.

orange, and shelves are blue. If a manager looks at a plan and sees a lot of green and yellow, that tells him an area is productive. It can also help him see where automation is needed.

PlanPrint, based in Doylestown, Pa., has 30 employees and is approaching \$2 million in sales this year. It provides more than tools. When a client is signed, PlanPrint engineers make a detailed on-site survey, measuring the plant and equipment and locating utility systems. The measurements are brought back to PlanPrint and transferred onto Mylar.

PlanPrint keeps the original plan in its vault, providing a photoprinted Mylar copy, along with templates, adhesive and other accessory materials, to the customer. Cost: about \$150 to \$200 per 1,000 square feet of floor space.

The largest plant PlanPrint has worked with was 2.25 million square feet, says MacLatchie; when that company expanded by another 1.5 million square feet, he got that job, too. Customers have included Hughes Aircraft, General Electric, General Motors, Rockwell International and Bell Laboratories.

MacLatchie's is a family business, with his wife, Jo-Ann, as full-time secretary-treasurer. Son Craig is marketing manager.

Still refining the tools, MacLatchie expects to soon offer clients the option of translating their plant layouts into computer graphics. Then, he chuckles, he will at last be able to make use of his electrical engineering background.

—Sharon Nelson





## Japan Rolls Out a Trade Carpet

By Henry Eason

**S**UPPOSE the market for your goods or services were to expand by 120 million consumers living in households that have an average annual income of \$17,592 and accumulated savings of \$31,578. It could happen, as Japan drops import barriers and practically begs American business people to increase sales there.

In fact, the Japan External Trade Organization, which led the Japanese to astonishing postwar success in exporting, has been transformed into a body that mostly promotes imports.

JETRO's new posture is an answer to American protectionist clamor over Japan's expected \$25 billion merchandise trade surplus with the United States this year. Instead of barring Japanese products, say JETRO officials, Americans should sell more goods to Japan to reduce trade deficits.

"Imports contribute to the Japanese economy by lowering inflation and keeping good relations with foreign countries," says Mitsuaki Sato, president of JETRO's New York office and coordinator of the quasi-governmental agency's other American offices in Los Angeles, San Francisco, Chicago and Houston.

Some American companies have already won huge shares of the Japanese market. Warner-Lambert and Gillette sell 70 percent of the safety razors used in Japan. Procter & Gamble has half the paper diaper market. Sixty percent of the soft drinks consumed are Coca-Cola products. Forty percent of the computers sold in Japan are made by IBM. Boeing sells 60 percent of the large jets. And Martin Marietta has half of the concrete mix market.

Opportunities exist for many other American firms, say JETRO officials. They say growth-oriented small and medium-sized businesses have more export potential than they realize.

For years, many American business people shied away from the Japanese market. Tariffs and a tangle of nontariff barriers shielded Japanese producers from foreign competition. Cultural differences and language were problems.



American goods and services are in greater demand in Japan than ever before, says Mitsuaki Sato, who coordinates the Japan External Trade Organization in New York.

Under Prime Minister Yasuhiro Nakasone many of the economic barriers have been dropping. Nakasone has promised that "Japan will reduce tariff rates, relax import restrictions and improve standards and certification systems, thereby opening up our market and promoting manufacturing imports."

So far this year, Japan has agreed to permit more imports of beef and citrus products and civil aircraft, and it has relaxed frustrating regulations on imports of energy products, farm machinery, livestock, road vehicles and medical services.

The Nakasone government is pushing legislation to encourage imports of telecommunications goods, computer software and many kinds of manufactured goods.

It has created an Office of Trade Ombudsman to arbitrate complaints lodged by exporters. And perhaps most significantly, it has expanded JETRO's import-inducing activities.

In 1982, JETRO began assisting foreign firms by conducting market research for them and arranging meetings with prospective clients in Japan. Today 760 consultants (545 abroad and 215 in Japan) help guide exporters into the Japanese market. Their services are available free of charge, along with nu-

merous booklets on specific markets and export issues.

JETRO is encouraging imports of nearly all products and services, but it sees the greatest opportunities for foreign vendors in petrochemicals, aluminum, ferroalloys and other materials that require large amounts of energy to manufacture. The market is also good for high tech products like medical equipment, aircraft and pharmaceuticals. Many consumer products—fashions, furniture, sporting goods, confectionary goods—are increasingly in demand by the affluent Japanese.

**C**ONTRARY to a prevailing myth, most Japanese consumers and corporations do not discriminate unduly against imports. A 1982 International Trade Conference survey found 63 percent of Japanese do not distinguish between imports and domestic products when shopping; 27 percent actually prefer imports. Sixty percent of business people select products based on their competitiveness rather than their national origin. Only 24 percent say that, given a choice, they tend to select Japanese products; 16 percent actually prefer imports.

Sato says Japan is working hard at home and abroad to bridge the "perceptual gap" between foreigners' beliefs



PHOTO: MASA YAMASHITA—SHOOTING CAMP



American tractors and many other U.S. products, from diapers and razors to computers and jets, are selling well in Japanese markets.

about the Japanese market and the reality. Worldwide, JETRO's 77 offices are arranging meetings with foreign exporters, holding seminars, making connections and conducting trade fairs—all aimed at encouraging imports.

Earlier this year, JETRO opened Centers for Industrial and Technological Cooperation in its five American offices. Their role is to stimulate a greater flow of investments and high tech know-how between Japanese and American firms.

The CITEC theme, according to JETRO, is "that cooperation rather than

competition among developed countries will revitalize the world economy and, consequently, the economies of its constituent nations."

JETRO's most ambitious trade fair is scheduled March 11-14 in Nagoya, a city of 8 million between Tokyo and Osaka that is a major economic center. A "Made in U.S.A. Fair" will be held on 80,000 square feet on Osaka's International Exhibit Hall, with enough space for 300 booths, each 10 feet square.

"We are confident," says a JETRO official, "that the trade show, with the all-out support of the Japanese government as well as lower expenses than ordinary fairs, will provide an ideal opportunity for U.S. firms to expand their exports to Japan."

JETRO is especially interested in helping American manufacturers of medical equipment and supplies, computer-assisted design and manufacturing processes, biotechnology, telecommunications, analytical instruments, health foods and recreational goods. Display space and consulting services will be free.

"How many foreign businessmen have earnestly attempted to enter the Japanese market?" asks Shoichi Akazawa, president of JETRO's Tokyo office. "I regret that many exporters give up even before seriously trying to enter it because of their false image of the market."

If you are thinking of selling to the

Japanese, says Akazawa, don't hesitate to call a regional JETRO office.

For example, he says, "If your company wants to export furniture to Japan, JETRO can supply basic data, such as information on lifestyles and customs of the Japanese, along with market information that will include competitors, average price ranges and general distribution channels."

Meantime, JETRO is conducting an "import awareness" campaign in Japan to encourage consumers beyond the main cities of Tokyo and Osaka to shop more for foreign goods. JETRO is setting up educational committees at the grass-roots level where, a JETRO official says, "Many Japanese still find it difficult to understand the need for imports."

Some advice for the prospective exporter:

- Study the hurdles. Others have adapted their products to Japan and earned respectable profits. Cultural differences exist, so be prepared to tailor your marketing and design to appeal to the Japanese consumer—as the Japanese producer obviously has for the American buyer.

- Hire some local help. Japan's is a complex economy with an elaborate distribution system and many business practices unknown in the United States.

- Keep up with trade liberalization reforms in your product area. The tariff and nontariff rules are changing in ways that will probably benefit your business.

And remember: There are 120 million potential consumers across the Pacific who have already helped enrich Coca-Cola, Procter & Gamble, Boeing and many smaller firms.

## A Worsening Trade Deficit

America's trade performance will "continue to deteriorate in 1984," reports an agency of the Commerce Department. The deficit, almost doubling last year's, is expected to be in the \$120 billion to \$130 billion range.

Worse, the record trade imbalance has worked its way so deeply into the structure of the United States' economy and the behavior of its trading partners that "the very large 1983 and 1984 U.S. trade deficits should not be expected to narrow quickly" in the years ahead, says Commerce's International Trade Administration in the first of a planned series of major annual trade reports.

An overvalued dollar (making American goods costly abroad), sluggish recovery worldwide and deepening prob-

lems in the Third World have clobbered the United States' exports.

Meantime, foreign imports, valued in cheaper foreign currencies, are very attractive to American consumers at a time when the United States' economy is booming.

Imports this year may top \$300 billion ITA says, led by an increase of 170,000 Japanese autos—up from 2,085,000 last year, increased oil shipments to power the recovery and an influx of East Asian manufactured goods.

Promising markets for U.S. exports are drying up. The developing nations of Latin America and other Third World countries are exporting at bargain basement prices and cutting back on imports in order to get enough cash

to repay debts to U.S. and European bankers.

Even if the dollar declines in value against other currencies, the effect will not be wholly positive. Before the cheaper dollar stimulates American exports, it will bring higher costs for imported goods that have been ordered but not yet paid for. A cheaper dollar will thus increase the trade deficit temporarily before reducing it.

And even if American productivity, capital investment and research and development increase this year, improvement will come too late to reduce the deficit.

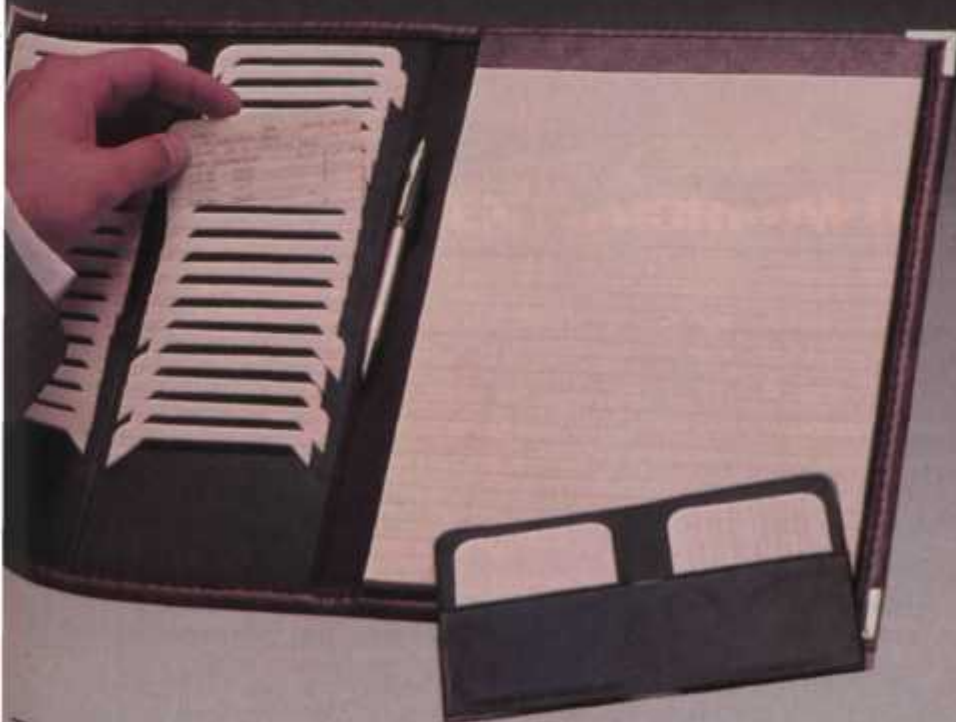
Concludes the ITA: "The growth in the deficit in 1984 will likely continue to be a significant negative factor in the U.S. economy's recovery." □



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## Foiling Allergies at Work

By Nancy Croft

**I**F YOU HEAR ONE of your co-workers say, "I'm allergic to the office," it may not be a joke. According to the National Institute of Allergy and Infectious Diseases, more than 35 million Americans suffer from allergies or asthma—and the source of those allergies can in many cases be found in the workplace.

The most common allergy, suffered by more than 14 million people, is allergic rhinitis (otherwise known as hay fever), which is a response to airborne particles that irritate the respiratory system. For some, hay fever is devitalizing and can interfere with work. Every year, over 3 million days are lost from work because of hay fever, according to the National Institute.

An allergy occurs when your immune system overreacts to an irritating foreign substance, called an allergen; dust is an example. The substances that cause hay fever are inhaled and stimulate your body to produce antibodies to ward off the allergens. When the antibodies and allergens combine, your body releases chemicals that may cause sneezing, swelling of the nasal passages, congestion and even itching eyes. One of the most potent chemicals released is histamine, but its effects can often be relieved temporarily by commercial antihistamine drugs. Antihistamines are more effective when taken at the first sign of hay fever symptoms, says the Asthma and Allergy Foundation of America.

If you suffer from hay fever, the simplest treatment, says the AAFA, is identifying hay fever allergens, knowing where they are harbored in the office and avoiding them or reducing their concentration to make working more comfortable. Here is how to handle some of the common culprits:

**Pollens.** The male germ cells of plants, pollens become airborne during the pollination process, causing an allergic reaction in sensitive individuals when inhaled. The peak pollen seasons: March to May, as trees pollinate; May

to July, as grass pollinates; and August until frost, as ragweed pollinates.

Since it is impossible to reduce the amount of pollen in the atmosphere, the best way to survive these months is to keep windows tightly shut and operate air conditioning equipped with an electrostatic precipitator—a filter that draws particles from the air with a fan, gives them an electrical charge and traps the particles magnetically. Elec-

systems, settling on venetian blinds, draperies, books and carpeting.

To help control dust, use draperies made of synthetic fabrics, since they can be washed to eliminate dust. Keep books in closed bookcases or closets. Bare floors, cleaned frequently with a damp mop, are preferable to carpeting. If it is not feasible to remove your office's carpeting, make sure the underpadding is not made of animal hair.

PHOTO: T. MICHAEL REZA



Dust collectors like papers and draperies harbor allergens that can make us sneeze.

trostatic precipitators, 95 to 98 percent efficient in cleansing the air, can be purchased from most air conditioning distributors and attached to the air vents. Or an air distribution system console—an entire filtering unit—can be installed in the middle of an office. The cost of electrostatic precipitators varies from \$500 to \$2,000, with the console the most expensive.

**House dust.** Found in offices as well as homes, house dust is a mixture of disintegrated fibers from draperies, carpeting and furniture stuffing material, and bits of the animal hair sometimes found in carpet underpadding. Some dust even contains an irritating microscopic mite.

The mites flourish in the summer, but allergic reactions to them are often more prevalent during colder weather because the mites die and disintegrate, reaching the respiratory tract more easily than live mites.

House dust becomes airborne through air conditioning and heating

When rummaging through dusty files, you may want to wear a surgeon's mask to prevent dust inhalation. Masks can be purchased at most pharmacies and medical supply houses.

An air distribution system's filters and air ducts should be cleaned once a month. When a heating or cooling system is turned on for the first time after some months of disuse, leave the area until all the trapped dust is blown out of the system—it usually takes about 30 minutes.

**Molds.** Mold spores are easily dispersed in the air and cause allergic reactions when inhaled. Cooling coils of air conditioning units, where water condenses, are

prime locations for mold because water stagnates and grows bacteria. When the mold dries and disintegrates, it blows through the air circulating system, irritating the respiratory tract.


Mold can grow on old books and files, foam rubber and even leather, in a damp environment. Mold is less apt to grow in polyester furniture stuffing than in foam rubber, and vinyl or some other synthetic may be better as furniture covering than fabric or leather, because it can be more easily cleaned.

When simply avoiding allergens does not relieve your symptoms, you may want to see an allergist. Once an exact allergen is determined, the allergist can decide on appropriate treatment. In many cases, allergy patients undergo a series of injections to help them build resistance to the allergen.

For more information about allergies and immunology, write to: the American Academy of Allergy and Immunology, 611 E. Wells Street, Milwaukee, Wis. 53202. □

NANCY CROFT is a Washington-based free-lance writer.





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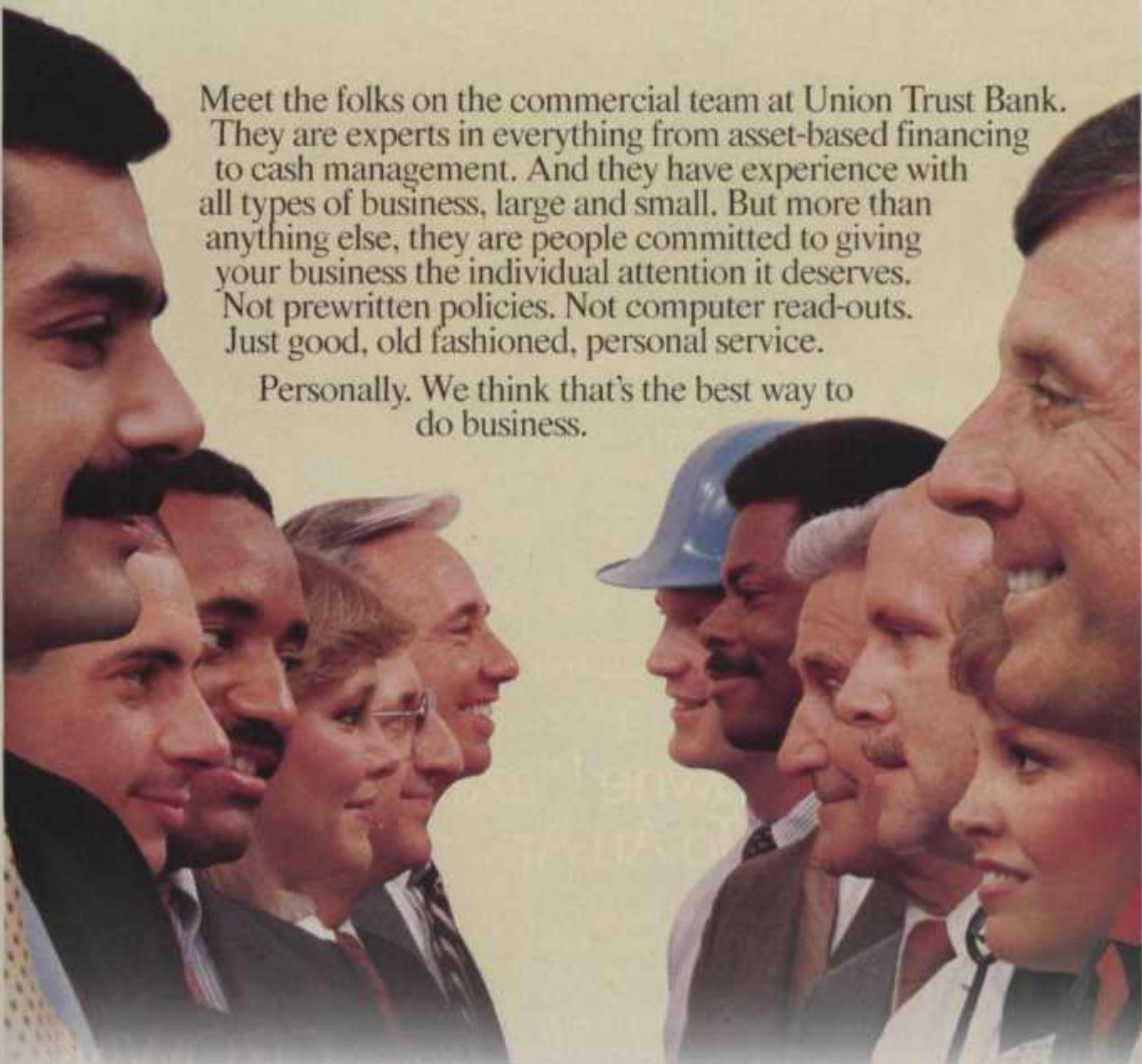
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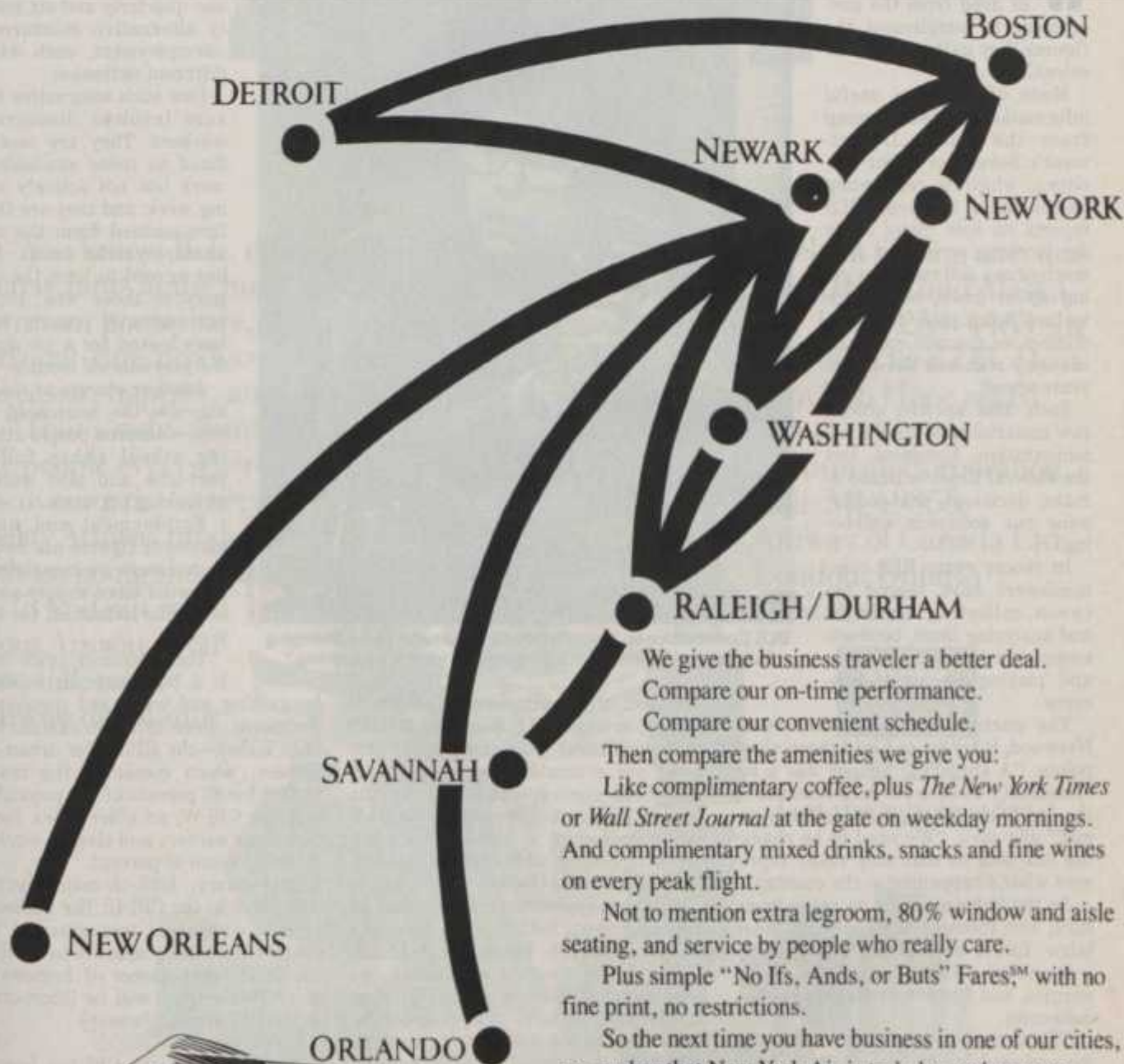


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# Economic Thermometer

The Bureau of Labor Statistics' reports help shape our future.

By Paul S. Green

**W**HAT DATA do businesses need from the government to supplement the figures they gather for themselves?

Much of the most useful information has been coming from the Labor Department's Bureau of Labor Statistics, which is celebrating its centennial this year. BLS reports on how many of us are working or jobless, how much prices and costs are going up or down, how much we are being paid, how productive we are and what the economy will look like in the years ahead.

Such data are the crucial raw material used by the administration, Congress and the Federal Reserve Board to make decisions that determine our economic well-being.

In recent years BLS commissioners have veered between collecting statistics and analyzing them, between emphasizing economic trends and playing up social concerns.

The current commissioner, Janet Norwood, is trying to blend those viewpoints. "A statistical agency has a responsibility to keep its data relevant to the conditions of the world as they occur," she says. "We need to be changing our data so that they really represent what's happening in the country."

As the bureau enters its second century, she foresees a larger and older labor force, strong participation by women and a larger proportion of minorities, and further shifting to service industries.

"We at the bureau should be identifying and explaining these changes," she points out. "I see a much greater use of data by Congress in legislation, but that can be worrying because Congress sometimes uses data in ways they were not intended to be used."

Foremost among BLS' priorities is keeping tabs on employment and unem-



BLS Commissioner Janet Norwood: "We need to be changing our data so that they really represent what's happening."

ployment. Its business establishment survey, in which BLS questions 200,000 nonagricultural establishments, produces one estimate of employment. A household survey, conducted by the Census Bureau under contract to BLS, generally brings a higher figure because it covers additional categories, the largest being the self-employed.

BLS puts together two estimates of unemployment, both derived from the household survey. The civilian estimate is the figure most often quoted; the total unemployment rate, which BLS introduced in January, 1983, is lower because it takes the military into account. Both have been criticized as inaccurate. Some call the estimates too high and question why BLS counts people with only a marginal interest in working, such as students. Others contend the figures are too low because they fail to include all who want a job—even if they are not actively seeking work—as well as part-timers who would rather have full-time jobs.

To address those problems, since the

mid-'70s BLS has published one quarterly and six monthly alternative measures of unemployment, each with a different definition.

One such alternative measure involves discouraged workers. They are now defined as those available for work but not actively seeking work, and they are therefore omitted from the main unemployment count. BLS has agreed to limit the category to those who, though not currently seeking work, have looked for a job during the previous six months.

Another change in the offing—for the household survey—concerns people attending school either full- or part-time and also working or looking for work.

Employment and unemployment figures are helpful to business as measures of potential labor supply and as economic indicators for local areas.

The consumer price index is a big factor in collective bargaining and wage and pension adjustments. Since 1978 two indexes have been issued—the CPI-U for urban consumers, which measures the market basket for 80 percent of the population, and the CPI-W, an older index for urban wage earners and clerical workers, covering some 40 percent.

In January, 1983, a major revision was made in the CPI-U: The homeowner cost component was changed to a rental equivalence measure to eliminate the investment aspect of homeownership. This change will be incorporated in the CPI-W next January.

**H**ISTORICALLY, the CPI has been revised about once every decade, and the next such revision is set for January, 1987. Revisions are planned to update the contents and relative weights of the market basket, to reflect population shifts indicated by the 1980 census and to improve estimates of price movements.

The revised index will be based on 1981-83 expenditures. It will cover new

PAUL S. GREEN is a Washington-based free-lance writer.







products and services, like home computers and day care, and will reflect how consumers have adjusted to such factors as the run-up in energy prices.

BLS will also attempt to account for price increases that reflect higher quality, and it hopes to keep better tabs on medical insurance and other insurance and finance charges.

In 1980 BLS began a consumer expenditure survey that will eventually be used to determine new CPI weights. The data from this continuing survey are expected to be widely used in market research.

**J**UST AS CRITICAL for business as the CPI is the producer price index, formerly the wholesale price index: Billions of dollars in purchase and sales contracts depend on it. The PPI measures price movements in various commodities and is often combined with BLS' monthly index of hourly earnings to develop payment levels under those contracts. It measures actual transaction prices rather than list prices.

The PPI is used for business planning, forecasting and adjusting prices under terms of contracts.

Improvements in measurement techniques and price quotations are part of a comprehensive overhaul of the index, to be completed in 1985. The PPI data base is being expanded at six-month intervals to cover all mining and manufacturing industries, with about 90,000 price quotations and 6,000 product indexes each month. A more limited effort is being made to cover service industries, whose products are difficult to measure.

BLS uses several measures to track workers' compensation. Besides the monthly index of hourly earnings there



Data compiled by BLS' industrial wages division can help executives estimate labor costs and pick new plant sites.

is the employment cost index, which provides compensation and wage changes by industry, occupation, union and nonunion status, and region. BLS also surveys wages by area and by occupation; these data can help businesses estimate labor costs and determine plant locations.

The agency tracks productivity for the economy as a whole, for specific sectors of the economy and for specific industries; it measures productivity changes attributable to new technology; and it compares U.S. productivity figures with those of other industrialized nations.

Late last year BLS introduced another set of productivity measures to supplement the existing output-per-employee-hour measures. These multifactor productivity measures, as they are called, relate output to inputs of labor and capital in manufacturing, retailing and other major economic sectors.

Productivity indexes are used to assess labor needs and to estimate effects of technological improvements.

The 1970 Occupational Safety and Health Administration law gave BLS responsibility for measuring job safety and health. Once a year it carries out a major survey counting the number of illnesses and injuries and compiling incidence rates. The law requires extensive record-keeping by business—the

only mandatory reporting for any BLS programs.

In its growth and projection activities, BLS uses alternative assumptions to look at the economy 10 years ahead and to determine future demand for workers in specific industries and occupations. Such projections are valuable in planning.

Unlike the Census Bureau, BLS relies on the voluntary cooperation of businesses (except for

OSHA data). Generally, the larger the enterprise, the more extensive the cooperation. Users realize that the effectiveness of what they get from BLS depends on the completeness and accuracy of what they give to BLS.

Retired BLS Commissioner Ewan Clague, a robust 87, likes to tell the story of the reporter who was writing an article on shipbuilding and asked an admiral running a shipyard some questions about the output of ships. "The admiral fixed him with an eagle eye and thundered, 'Do you want statistics or do you want ships?'"

The admiral was wrong, says Clague; both ships and statistics are required. The better the statistics, the better the nation can fill its needs.

**H**OW WELL BLS does its job is underscored by a key business observer, John Post, retired executive director of the Business Roundtable and former chairman of the BLS Business Research Advisory Council, established by Clague after World War II along with a parallel Labor Advisory Council.

"BLS is not politicized, even though its findings may hurt the administration," Post points out. "The integrity of BLS is very important, and the staff wants to be surgically clean as far as dealing with the numbers is concerned."

## What's Available From the BLS

Information collected by the Bureau of Labor Statistics to keep government policy-makers in the know can also aid executives.

Two free catalogs—*Just Published*, a monthly listing of new publications, machine-readable data tapes and microfiche, and *Current BLS Publications*, which lists about 100 recent publications—are available from the BLS, 441 G Street, N.W., Washington, D.C. 20212.

Among other BLS offerings and services:

- News releases. Regular mail-

ings of BLS news releases are free. By subscribing to a new electronic service, businesses can tie in to a BLS computer for immediate receipt of releases; cost is \$8 to \$15 per release.

- Pamphlets. One of these free publications is *What Every Employer Needs to Know About OSHA Recordkeeping*.

- Bulletins. Each year BLS publishes 100 area and industry wage studies and 50 other volumes, such as *Bargaining Calendar*, a yearly schedule of anticipated labor-man-

agement contract adjustments, \$5; and *Employment Projections for the 1980s*, \$4.

- Periodicals. Subscriptions and single copies are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402: *Monthly Labor Review* (\$26 a year, \$5 a copy), *Employment and Earnings* (monthly; \$39 a year, \$6 a copy), *Producer Prices and Price Indexes* (monthly; \$34 a year, \$5 a copy), *Current Wage Developments* (monthly; \$23 a year, \$4.50 a copy).



# There are only two methods for acquiring real wealth

## METHOD #1

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Making a fortune this way requires a lot of nerve, determination and the willingness to take chances—to start out with nothing more than guess-work and to try again if your financial guesswork turns sour.

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## METHOD #2

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The program contains the input of such men as Dr. Morton Shulman, multimillionaire in-

vestor and author of best-selling books on how to acquire wealth—and Andrew Sarlos, who built a multimillion dollar investment group.

*And you will be able to take advantage of all this valuable knowledge because in Lesson 1 you will discover that you probably do have money you can afford to invest—without changing your standard of living.*

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All right. So you've seen it is possible for you to amass a million dollars by the time you retire. But just as important is the fact that *SIMM* will enable you to act now to increase your wealth, and show you how to get the best possible standard of living out of the money you have today. By applying the tech-

## Positive proof that you can be a millionaire

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Once you've found your \$2,500 to invest, think of this: If you invest just \$119 a month (\$1,428 a year) at 13%, starting at age 30, you'll have over a million dollars by the time you're ready to call it a career. And with *SIMM* you can learn how to use leverage that could get you returns of up to 25%.

niques you learn from *SIMM*, you can reasonably expect to be on the road to financial security in 5 years. Ten years from now, you may no longer have to work for a living.

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## The hidden barrier that stands between you and real wealth

Most people are used to the idea that they'll never be wealthy. They simply don't believe it's possible—and before *SIMM* was developed, they were probably right. But now, you can receive, in your own home, lessons that contain clear and practical explanations of techniques and principles of investing and money management that really do work.

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## Statement of Principles

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The paper jungles that can engulf office operations in businesses of any size can be conquered by sharing information electronically to standardize records and boost efficiency.

## Cutting the Automation Giant Down to Your Office Size

By Mike Lewis

**A** MERICAN BUSINESS has made massive strides toward the high technology office in the last decade—and there is further, dramatic change just over the horizon.

Business managers are not embracing a trend, they are turning to a modern way to meet modern problems—office automation based on increasingly sophisticated electronic equipment.

Strategic thinkers in business, recognizing that white collars greatly outnumber blue collars, believe that the long-range key to increasing the efficiency of an entire business is to raise office workers' productivity.

That key—automating offices to reduce labor costs—unlocks a door to a different way of doing business, says David T. Kearns, president and chief executive officer of Xerox Corporation. "Ours is an age," Kearns says, "when information and knowledge—not hard goods—have become the foundation of our economy. Information is the commodity that will provide the competitive edge, and you'd like to think that the office is ready to take hold. The fact is, it's not."

"It's hard to believe, but there is still no clear sense of mission in the office. And there is no clear sense of urgency about the need for it, even though white collar workers make up over half the work force and absorb three quarters of private industry's payroll. Indeed, the

way American companies are managed, most labor costs are not for production workers, they're for white collar workers in overhead positions."

Because Kearns maintains that office automation offers the potential to affect more workers than innovations in manufacturing, he has become an outspoken advocate of the idea that making clerical, professional and managerial workers more productive is the best way for American business to gain the efficiency needed for continued success in an increasingly competitive world market.

"This is not just a big-company problem," Kearns says. "Some of the worst offices I've seen are in small and medium-sized companies."

**A** NEW WAY to make offices more efficient is the linking of data and voice communications, with telephone messages being converted into written messages on a computer screen. Not surprisingly, AT&T Information Systems is among the leaders in tying together telephone branch exchanges, microcomputers and minicomputers in a coordinated information network.

A number of companies offer local area networks in which personal computers are linked so that information can be shared instantly—something possible until recently only after a big investment in a larger computer system. And this fall will see more manufacturers introducing

microcomputers that allow more than one user at a time.

Many offices have not waited for the revolution. They have plunged ahead with different levels of office automation.

On the following pages, NATION's BUSINESS offers a close-up of four geographically diverse enterprises, in different kinds of business, that are taking the same path.

In suburban Denver, Direct Sales Tire Company has computerized almost every aspect of its business, including entering sales at each of its stores into the computer system.

Facing a daunting series of mailing lists, the owner of Extrasport, Inc., in suburban Miami found that a word processor and a personal computer with hard disk drive allowed him to coordinate his lists and vastly simplify the processing of orders.

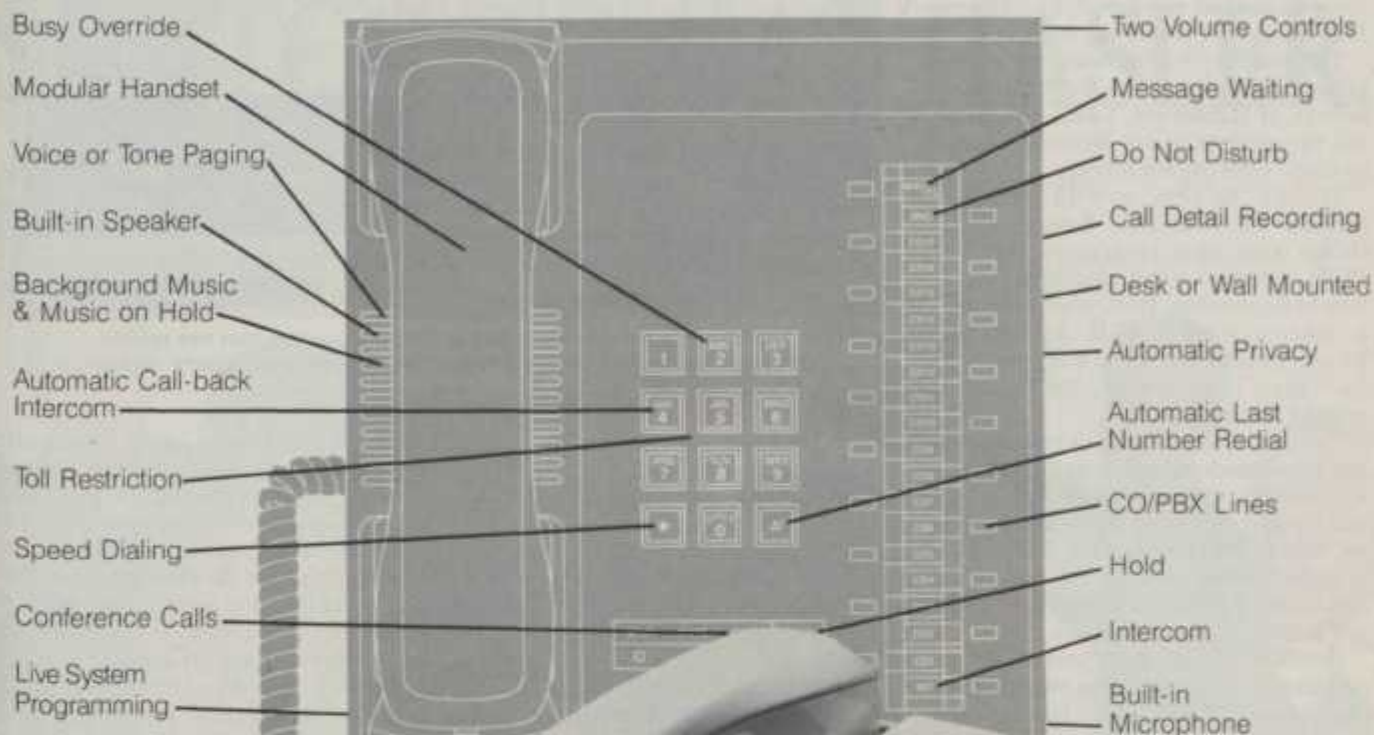
In Boston, the law firm of Murphy & Beane relies on secretaries to enter data into its computer system; most of the attorneys cling to yellow legal pads.

Confronted by a need to respond more personally to donors who support their organization, the executives of Carnegie Hall in New York found that a computer system could personalize their gratitude.

Each enterprise functions in its own way, but each has tried to integrate hardware and software to improve its bottom line.



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## Untiring Inventory System Makes Tracks

Tire stores, once glass-fronted garages full of busy mechanics, noise and keen price competition, have, in one chain retailer, changed their image. Direct Sales Tire Company has found that computerization can increase profits before the rubber meets the road.

The company's integrated system enables its headquarters in the Denver suburb of Henderson, Colo., and 55 retail tire outlets in six Mountain states to share information quickly.

Though the firm, now 15 years old, had an International Business Machines computer system in the late 1970s, it took a giant step into the future in September, 1980, when it bought a more-powerful IBM System/38, which "greatly improved our productivity," says Tom Barclay, the data processing manager.

The new system, with 19 terminals in the headquarters and four in regional warehouses, cost about \$400,000. It was quickly put to use to serve the company, which generates about \$60 million in annual sales through its tire stores and another \$80 million with a chain of self-service gasoline stations.

Because the system proved an increasingly effective tool in coordinating the company's activities, Barclay and his staff of two programmers and two operators began to look for ways to expand the system to share information between headquarters and the stores.

Four months after a test at one store in April, 1983, the company spent about \$300,000 to equip each store with an IBM PC-XT computer. The personal computers were linked to the headquarters system over telephone lines by Access/38, a product of Chicago-based Access Telecommunications, Inc.

Corporate managers and store managers now have ready access to the same central pool of information about inventory, shipping orders and financial data. And all that information has become easy to manage, with a corporate accounting and clerical staff of fewer than 20. "Savings from a clerical standpoint are enormous," Barclay says.

Through the electronic lines of the computers, Barclay says, "we control and report on essentially every aspect of the business" as inventories are integrated with sales—each of which is entered on the computer in the store rather than on a cash register so that inventory levels are kept current. While inventories are being updated, the computer prints an invoice and enters information about the sale on the store's daily report so the manager can see



Tom Barclay manages the data processing system that has unified Direct Sales Tire Company's information and communications network.

which products are selling well. The computer has even been programmed to point out when purchases are required to bring the inventory to the right level.

And those transactions are analyzed on the computer in Henderson so that both prices and payment terms can be compared before a purchase to ensure the best deal for Direct Sales.

The system, of course, allows for the usual computer uses around the office, such as management-support analysis and word processing. A daily report from Henderson is automatically telecommunicated to the stores' computers at midnight, long after the staffs at each end of the phone lines have gone home.

"From the management level, it's a very powerful system," Barclay says. In addition to assisting corporate planning by providing a detailed daily picture of cash flow, the system has been programmed to perform a daily comparison of advertising to sales and to help the company keep track of its competitors' advertising campaigns. As a result, Barclay says, "we really have a solid feel for our advertising situation"—an important asset in a price-conscious business with relatively few manufacturers and many retailers.

The computer also assists in analyzing possible acquisitions, helping project whether purchase of land for a future store appears to be cost-effective.

One prosaic use that could save on record-keeping expenses is expected soon: Workers will "punch in" on the computer rather than on time clocks.

Another planned adaptation is more unusual: Barclay's staff is devising a computerized sales technique. A clerk will question a customer about his tire

needs, typing into a store's computer the answers to questions about the customer's annual driving mileage and what percentage is from long trips. The computer will then suggest the kind of tires appropriate for the customer. Barclay is confident this technique will be a good sales tool and improve managers' knowledge of their products.

Barclay and his staff, who write many of their own programs, have found another way to improve Direct Sales' return on investment in automation: They sell many of their software packages to other tire retailers.

With an investment of about \$700,000 in computer hardware and five people to find new uses for it, Direct Sales has staked its future on automation.

## High and Dry In A Torrent of Lists

Awash in mailing lists, invoices and customer service labels, Extrasport, Inc., a manufacturer of life jackets and sports equipment, reached for a life jacket of its own.

The Miami company computerized its customer lists.

President Alex Khanamirian's 12-year-old company, which has about \$1 million in annual sales, meets special needs in sports such as canoeing. "We're a tiny company, but we manufacture a lot of different items," Khanamirian says, necessitating an inventory system that can keep up with a broad range of supplies and "literally hundreds of inventory items just for finished products."

In addition, Underwriters Labora-



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Clerks at Direct Sales' stores can depend on up-to-date inventories because sales and inventories are entered on the same computer system.

tories conducts frequent tests of Extrasport products—a process that may ensure quality of goods but that also increases the record-keeping burden.

To address these needs, Khanamirian bought a Vydec word processor from Exxon Office Systems Company four years ago and began using it to produce invoices, mailing labels and the various kinds of letters needed for customer service. That introduction to automation proved so successful that Extrasport bought another Vydec two years ago, bringing the total investment to about \$10,000, including the cost of about 240 disks for the word processors and training for the staff.

"In the beginning," Khanamirian concedes, "we suffered through the common ailment of automation blues" as the staff learned a new routine, but enthusiasm for the new way of doing things grew as automation increased the office's efficiency.

Extrasport's rapid growth in recent years led Khanamirian to automate further.

"Part of our business," he says, "is catering to smaller clients." There are many of them; Extrasport sells directly to stores nationwide, bypassing wholesale distributors and allowing the company to match the prices of lower-

quality products. But, Khanamirian says, that places a heavy burden on the administrative staff in Miami.

His solution: He sold one of the word processors and bought a DECmate II computer, with a hard disk for greater information storage, from Digital Equipment Corporation.

Now the customer and inventory bases are consolidated on a single hard disk, rather than a series of disks for individual word processors. Names and orders are easier to keep up with.

The computer's bigger memory has eliminated duplication of effort by the three people who work on the DECmate at different times, because they can now type into the computer information

about a particular order only once rather than having to repeat information for each step in the record-keeping process. In the past, an order was written by hand and filed for internal reference in a client list, a packing slip was prepared and compared with the order, and then an invoice was prepared with copies for various files.

"The computer lumps most of that work into one system," with a big saving in time and improvement in accuracy, says Khanamirian. All it takes to obtain a new entry for an order now, he says, is to type the number of an order into the computer and enter the information needed. The new entry, perhaps an invoice, is produced almost instantly.

The \$11,000 he spent for the DECmate, its software and related equipment was a good investment, Khanamirian says, because it improved the administration of sales—a category he puts right after ensuring product quality in rating the activities essential to his business.

"A computer, to me, is strictly an administrative tool," he says, but it has become a very important tool. "I don't think that the computer is responsible for any increase in sales," he says, but the computer has allowed his staff to process orders more efficiently than in the past and has enabled him to evaluate quickly the kinds of products that are selling well.

Would he go back to hand writing orders? No way, Khanamirian says. "The purpose of this company is to supply the best item for the market—whatever it is—that we can," and computerization keeps efficiency high and administrative costs low.

## As Much Computing As the Lawyers Allow

Boston's financial district, located near the city's harbor, is often blanketed when wintry winds deliver snow. Inside many of the old office buildings near the federal and state courthouses is another kind of storm—a perpetual blizzard of paper work generated as law firms represent clients in court and administrative proceedings.

Such a storm greeted Stephen Laskin when he joined Murphy & Beane as an associate in early 1981. The firm represents employers in workers' compensation claims cases.

Because Laskin had been exposed to computers in the past—his undergraduate degree is in engineering—he was told to help Murphy & Beane enter the computer age.

"I consulted a number of software

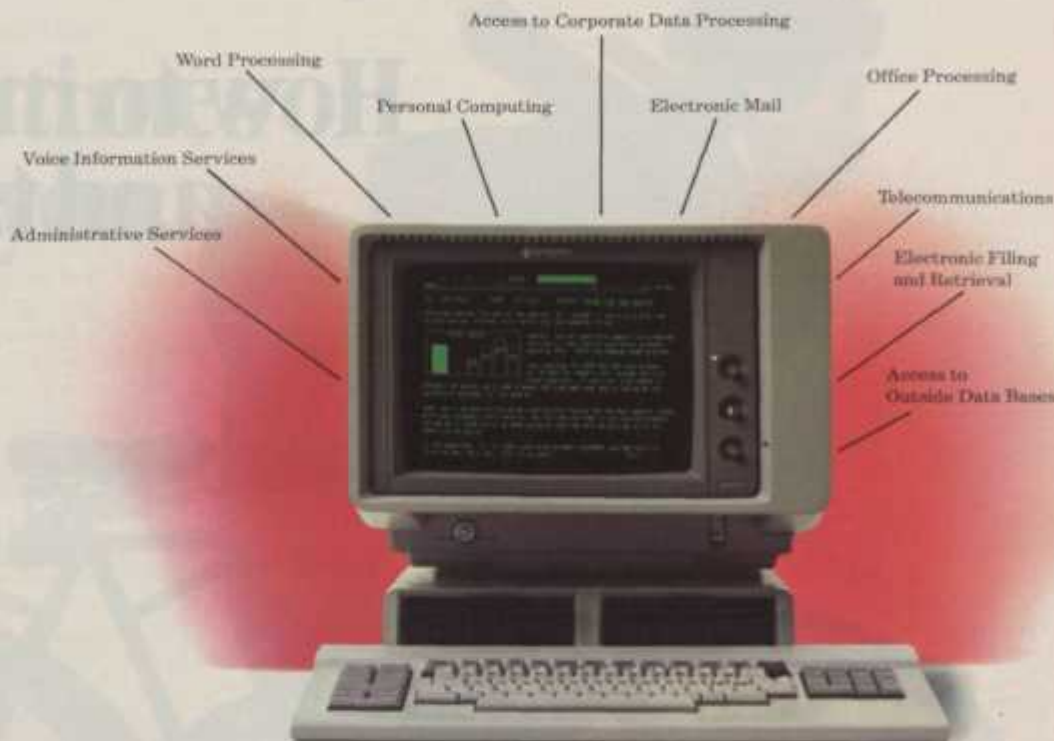
NATION'S BUSINESS

Coordinating customer lists has helped sales at Alex Khanamirian's Extrasport, Inc.



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vendors," he recalls, before an International Business Machines representative referred him to an Oakland, Calif., software company, Computer Software For Professionals. A short time later Laskin attended a CSP seminar in Boston. He was impressed by CSP's LegalMaster computerized billing program, which could handle more work than the law firm needed at the time—exactly the kind of growth potential Laskin sought.

Murphy & Beane soon purchased an IBM System/23 Datamaster computer and the LegalMaster software. Records of billed time, laboriously typed and filed in the past, could now be entered into the computer and automatically processed for mailing to clients quarterly—although Laskin says the software would allow for more or less frequent billing if the firm and its clients agreed to another schedule.

Because the old, manual billing process had been cumbersome, there had been no regular practice of checking for unpaid bills. Now the computer checks for notations that the previous bill has been paid each time it prepares a new bill.

The only person regularly involved in the billing process is Laskin's secretary, who spends a few hours a week on the computer. Without the computer, Laskin says, "it would take forever," even with a number of clerical workers.

Clients react favorably to computerized billing, he says, because the precision of the system reinforces the impression of meticulous professionalism they want from their law firm.

The age of automation has also become a shelter against the blizzard of paper work involved in writing pleadings and briefs. Most of the firm's 30 lawyers litigate cases, often needing to prepare motions and other pleadings. The lawyers continue to prepare their points of law and fact, dictating the information or drafting it on legal paper. Though automation at Murphy & Beane has not yet affected this drafting stage, it has reached the secretaries, who now enter the information into one of the firm's three IBM Displaywriter word processors, which were purchased one at a time. The demand for access to these machines by the secretaries in the office has led to an order for two more.

"Before, if a secretary typed a three-page, single-spaced letter that had one typographical error in the middle of it, you had to decide if you should send it that way or wait a day until she had time to retype it," Laskin says. "This system can make a correction like that in seconds, ensuring professional output in minimal time. It has given us power as editors and freed us to be more precise and creative."

Laskin himself is the focal point of a major use of word processors at the firm. At the end of a trial or administrative hearing, the judge often directs both sides to submit briefs that make legal points backing up the evidence presented. At that stage Laskin goes over the facts of the case with a litigator, reviews the transcript of the proceedings, researches legal points and writes a brief, using the word processor on his desk.

Before the arrival of the word processors, preparing briefs was a time-consuming process, often involving cutting, pasting and copying materials. Some of each brief was boilerplate, but there was no way out of typing these repetitive portions of the documents. Now, with the word processor able to merge material easily, letter-perfect briefs are easier to produce.

"It has been a relatively bumpy introduction of automation," Laskin concedes, because some of the firm's lawyers—young and old—have been

reluctant to become familiar with the new approach to processing information.

Nevertheless, Laskin says, office automation has sheltered Murphy & Beane from a blizzard of paper work.

## The Right Note For Carnegie Hall Donors

Can a world-renowned concert hall and a computer system make beautiful music together? Herbert Weissenstein, director of development and strategic planning at Carnegie Hall, has the numbers to prove they can.

In the summer of 1979, the venerable music center in midtown Manhattan faced financial problems. Since Weissenstein's staff is responsible for raising the corporate and individual donations that keep Carnegie Hall afloat, he began to look at ways of giving more personal attention to donors. Ironically, Weissenstein discovered that automation provided the only way his staff—which totaled two full-timers and one half-timer—could give personal attention to the 1,800 groups and individuals donating to Carnegie Hall that year.

In looking for a computer system, he says, "the one thing we did know was that we knew nothing." So Laurence M. Pack of Cardinal Data Systems, an Englewood Cliffs, N.J., consulting firm, was called on to help the Carnegie Hall staff analyze its needs and match them with the appropriate computer hardware and software.

Pack says he asks a client, "What are you doing? What do you think you're doing wrong?" and then looks at what can be accomplished cost-effectively. His firm draws up final requirements for the computer system to be purchased and assists in implementing the system and training the staff. With many clients—Carnegie Hall has been one—Pack later assists in modifying software and adding to the initial equipment.

Weissenstein says he wanted to make sure the hardware supplier would not contract out the service—blame-passing between manufacturer and service firm can be a frustrating waste of



Laurence Pack (left) continues to help Herbert Weissenstein with Carnegie Hall's automation.



time for the customer. He also insisted that a salesman explain his products understandably. If a salesman is unclear, he advises, "don't feel guilty; throw him out." Carnegie Hall also wanted a system that could be expanded without expensive down time.

In late 1979 Carnegie Hall bought a Wang 2200 small business computer system, along with one computer terminal and one printer. As the staff became familiar with its new tool, donations began to be acknowledged much more quickly, and instead of uniform letters of thanks, different letters noting increases and decreases in the size of gifts from previous years were sent out. The computer system allowed the staff to keep up with the \$1 million donated to Carnegie Hall in that fiscal year.

In the years since then, the number of donors and amount of gifts have soared—the past fiscal year saw more than 7,400 contributors giving \$5.9 million. "I'm not saying automation did it," says Weissenstein, "but without automation we would have broken down."

Donations are now acknowledged by a letter mailed within 48 hours, and po-

tential donors receive a series of letters during the periodic funds campaigns. Both of these sales tools were made possible by automation.

As the volume of contributions grew, so did the computer system and its uses. Next to be computerized were lists of subscribers to the various concert packages, and then the entire ticket sales operation—about \$2.5 million in annual volume—was automated. Suddenly music lovers who had wearily grown used to waiting weeks for tickets began to receive them within 48 hours. There was a resulting improvement in sales.

Carnegie Hall's mailing list is now 88,000 names long, and custom software allows for cross-matching entries for different donor, subscriber and single-ticket categories.

The computer system is also used for the nonprofit organization's accounting. Next on the list for computerization is the complicated scheduling of space for the two concert halls and one rehearsal hall.

To protect its information, the staff "backs up," or copies, its data every night and once a week sends the infor-

mation to a storage facility. Even if a fire or some other calamity struck Carnegie Hall, its staff's years of efforts at recording information would not be lost.

Although the system has developed problems on occasion—once being out of commission a whole week—it has been generally dependable. One key for any business, Weissenstein says, is to "avoid state of the art"; go for the tried and true.

After all this time Weissenstein has still not put a computer terminal in his own office. With a sigh he waves toward clerical workers nearby and says they will get terminals before he will as he tries to make every addition to the system as cost-efficient as possible.

Fittingly for a contribution-support organization, the entire computer system has been purchased out of a \$100,000 foundation grant. "The stuff has paid for itself I can't tell you how many times," Weissenstein says. "I can't imagine you could find a grant with more leverage in it." □



To order reprints of this special report, see page 81.

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# Choosing the Right System

By William F. Zachmann

Minicomputers, personal computers, PBX systems and word processors all can offer important opportunities to improve productivity and to enhance the operations of a business.

But choosing the right hardware and software for an office information system is one of the toughest decisions the manager or owner of a small or medium-sized business will make.

Most of these owners and managers have little or no experience with computers and other information systems—and are without the necessary information to answer these essential questions:

- "Do I get personal computers or do I get a multiuser system?"
- "What operating system should I get?"
- "How much capacity do I need?"
- "Do I need communications capability?"
- "What software is needed for what I want to do?"
- "What is it I want to do?"

Remember that communication is the one essential goal of office automation. People think in random, unpredictable patterns. Your system should help people generate ideas easily and share those ideas with others. The system should not get in the way of your people or their ideas.

Your system should allow people to expand the scope of their work. Doing better work—not doing faster work—should be your goal.

Smaller organizations can seldom afford a staff professional with the experience to make sound recommendations. External consultants, while they may be helpful, prefer the better financial rewards of consulting for larger organizations. That leaves smaller or-

ganizations with consultants who frequently seem qualified only because "in the kingdom of the blind, the one-eyed man is king." And effectively evaluating consultants is not guaranteed to be easier than evaluating information systems.

There is no simple checklist of rules that can assure success in selecting an

information system for a medium-sized or small business.

What can be done, however, is to provide some basic suggestions that will improve one's chances for success and help to avoid common pitfalls to which too many owners and managers of medium-sized and small businesses fall prey: thinking you understand something when you don't or relying too much on an expert.

You need to sort out just what you know—and what you do not.

What you know is not only what you know personally, but what your employees may know as well. You must attempt to assess yourself and your staff reasonably and accurately. What

is the collective level of knowledge and experience with computers and your business directly embodied in you and in your staff? And what are your collective limitations?

At one extreme are those who assume that, because they know other things about running their businesses, they must automatically be qualified to pick a good information system as well. Blind to the limitations of their knowledge, they press forward with decisions based on misinformation and their own lack of understanding.

One apparel manufacturer spent well over half a million dollars buying one system after another, commissioning software development, and spending far more time, energy and money than was required, with minimal results. In that instance, the overall health of the business kept the mistakes from being fatal. Ultimately, that businessman learned enough from his mistakes to begin to make sound choices. He is now quite advanced in the effective use of information systems. A weaker company might have gone bankrupt in the early stages of the learning process.

At the other extreme is the owner or manager who believes he or she knows nothing of information systems and who depends entirely on someone else. If you rely absolutely on a supposed expert, however, you are not only gambling on the outcome, but you also are unlikely to learn anything very useful.

You cannot make an intelligent selection without a good idea of what you want your information system to do and why. There is no reason to buy new technology simply because it is there. Until you have a good idea of what a computer or communications system is going to do to help you run your business more effectively, you are better off not getting a new computer or communications system at all. The purpose



World sales of office personal computer hardware and software are projected to grow 35 percent annually.

WILLIAM F. ZACHMANN is vice president/corporate research of International Data Corporation, a Framingham, Mass., firm that analyzes the computer industry.



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Businesses that do not hire consultants when they automate often turn to computer stores for help in identifying their needs and meeting them.

of computerizing is to improve your business, not to be technologically up to date. These things are tools, not ends in themselves.

Be sure, before setting out to acquire an information system, that: 1) you have a clear idea of what business problems you are aiming to solve; 2) you know how an information system can solve

those problems; and 3) you select a system based on how effective it will be in solving the problems that concern you.

An inexpensive resource will be the salespeople who are interested in selling you information systems. If you keep in mind that every salesperson will say the features and benefits of his individual product are unique (although

most of them are likely to be found in most products of the relevant type), and if you have the patience to listen to a number of salespeople, then you may learn a great deal.

Evaluate what salespeople tell you, reading between the lines of the standard pitch, insisting on understandable answers to your questions and refusing to be buffeted by technical mumbo jumbo.

Once you have a good idea of what problems you wish to solve and of the broad class of equipment or software that can address those problems, you may then turn to a comparative evaluation of alternative vendors' offerings.

**T**HE FIRST CRITERION of importance, and the most obvious, is the basic price-to-performance ratio of a system. That is, we must determine what it costs to obtain a particular level of performance from various vendors' equipment. Raw ratios of price and performance do not tell the whole story, however.

Can the system be readily expanded? The system that is adequate today may not be tomorrow. The vendor should provide the capability to expand without expensive and difficult conversions, and support the current line of systems into the future.

You will want to assess the kind of service the vendor or third parties provide in your area.

You will need to know what kind of software is available for a particular vendor's hardware, from independent software vendors as well as from the hardware vendor.

A wide selection of software assures many opportunities to take advantage of previous development in meeting future needs. A system with little software available may appear appealing on basic price and performance but nevertheless be a bad choice if your software must be developed from scratch.

Particularly important is the availability of software that is easy to use, supports office automation and provides the tools any professional business person can use. General tools that do not require sophisticated programmers are especially critical in medium-sized and small businesses. Try before you buy. If software is as easy to use as the vendors' salespeople so often claim, try it yourself.

It is your money you are spending, and your business that you are betting on your choices of information systems hardware and software. You can make reasonable, intelligent decisions in this matter if you bring to it the skills you have employed in other aspects of the business. □

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# What Is Your Firm's Software Portfolio?

Word processor and small computer software are key components of office automation. How does your software capability compare with other companies'? Please take a moment to complete this survey. Results will be reported in a future issue.

## 1. Does your company have a word processor?

- ☐ Yes 4-1    ☐ No 4-2

## 2. Does your company have a small computer?

- ☐ Yes 5-1    ☐ No 5-2

\*\*\*If you answered "NO" to questions one and two, skip to question six.\*\*\*

## 3. Which of the listed software applications does your company have software for? List the names of up to three software packages for each application your company uses.

Software applications	Software package names	Software applications	Software package names
<input type="checkbox"/> Word processing 8-1	_____ 7-8 _____ 9-10 _____ 11-12 <input type="checkbox"/> Customized package 13-14 <input type="checkbox"/> Don't know name 15-16	<input type="checkbox"/> Telecommunications 50-1	_____ 51-52 _____ 53-54 _____ 55-56 <input type="checkbox"/> Customized package 57-58 <input type="checkbox"/> Don't know name 59-60
<input type="checkbox"/> Data-base 17-1 management (Inventory control, mailing labels, etc.)	_____ 18-19 _____ 20-21 _____ 22-23 <input type="checkbox"/> Customized package 24-25 <input type="checkbox"/> Don't know name 26-27	<input type="checkbox"/> Engineering 81-1 support/analysis	_____ 82-83 _____ 84-85 _____ 86-87 <input type="checkbox"/> Customized package 88-89 <input type="checkbox"/> Don't know name 90-91
<input type="checkbox"/> Spread sheet 28-1	_____ 29-30 _____ 31-32 _____ 33-34 <input type="checkbox"/> Customized package 35-36 <input type="checkbox"/> Don't know name 37-38	<input type="checkbox"/> Management/ 72-1 decision support	_____ 73-74 _____ 75-76 _____ 77-78 <input type="checkbox"/> Customized package 79-80 <input type="checkbox"/> Don't know name 81-82
<input type="checkbox"/> Accounting 39-1	_____ 40-41 _____ 42-43 _____ 44-45 <input type="checkbox"/> Customized package 46-47 <input type="checkbox"/> Don't know name 48-49	<input type="checkbox"/> Graphics 83-1	_____ 84-85 _____ 86-87 _____ 88-89 <input type="checkbox"/> Customized package 90-91 <input type="checkbox"/> Don't know name 92-93

## 4. Do you think your company would purchase more or less software if it had the chance to try out the software before buying?

- ☐ Would purchase more 94-1    ☐ Undecided 94-4  
☐ Would purchase less 94-2    ☐ Don't know 94-5  
☐ Would purchase about the same amount 94-3

## 5. Which of the following do you think have been problems with the software purchased by your company?

- ☐ Hard to understand manual(s) 95  
☐ Not enough written instruction 96  
☐ No one available to explain problems that are not fully covered in the manual(s) 97  
☐ Inability to start right in and use the software after going through the manual(s) 98  
☐ Software does not do what we thought it could do 99  
☐ Software package not powerful enough for our purposes 100  
☐ Software does not offer enough different functions in one package 101  
☐ Other 102 \_\_\_\_\_ 103-104



**6. Which of the listed kinds of software does your company plan to purchase in the next 12 months?**

Kinds of software	Plan to purchase	Kinds of software	Plan to purchase
Word processing	<input type="checkbox"/> 105	Graphics	<input type="checkbox"/> 109
Data-base management	<input type="checkbox"/> 106	Telecommunications	<input type="checkbox"/> 110
Spread sheet	<input type="checkbox"/> 107	Engineering support/analysis	<input type="checkbox"/> 111
Accounting	<input type="checkbox"/> 108	Management/decision support	<input type="checkbox"/> 112

**7. When deciding what kind of word processor or small computer to buy, how important are cost, quantity and quality of software available?**

Software Characteristics	Not At All Important	Somewhat Important	Very Important
Cost	<input type="checkbox"/> 113-1	<input type="checkbox"/> 113-2	<input type="checkbox"/> 113-3
Quantity	<input type="checkbox"/> 114-1	<input type="checkbox"/> 114-2	<input type="checkbox"/> 114-3
Quality	<input type="checkbox"/> 115-1	<input type="checkbox"/> 115-2	<input type="checkbox"/> 115-3

**8. How much money does your company plan to spend on software in the next 12 months?**

- ☐ Under \$200 116-1    ☐ \$700-\$999 116-4  
☐ \$200-\$499 116-2    ☐ \$1,000 or more 116-5  
☐ \$500-\$699 116-3

**9. How much influence do you have when your company is considering purchasing software?**

- ☐ I recommend the kind/brand 117    ☐ I authorize/approve the purchase 120  
☐ I recommend the purchase 118    ☐ None of the above 121  
☐ I authorize/approve the kind/brand 119

**10. Sex:**

- ☐ Male 122-1    ☐ Female 122-2

**11. Age:**

- ☐ Under 22 123-1    ☐ 35-39 123-5    ☐ 55-59 123-9  
☐ 22-24 123-2    ☐ 40-44 123-6    ☐ 60-64 123-10  
☐ 25-29 123-3    ☐ 45-49 123-7    ☐ 65 or older 123-11  
☐ 30-34 123-4    ☐ 50-54 123-8

**12. Number of employees in your company:**

- ☐ Under 5 124-1    ☐ 250-499 124-7  
☐ 5-14 124-2    ☐ 500-999 124-8  
☐ 15-24 124-3    ☐ 1,000-2,499 124-9  
☐ 25-49 124-4    ☐ 2,500-4,999 124-10  
☐ 50-99 124-5    ☐ 5,000-9,999 124-11  
☐ 100-249 124-6    ☐ 10,000 or more 124-12

**13. Approximate annual sales volume:**

- ☐ Under \$300,000 125-1    ☐ \$25,000,000-\$29,999,999 125-7  
☐ \$300,000-\$599,999 125-2    ☐ \$30,000,000-\$99,999,999 125-8  
☐ \$600,000-\$999,999 125-3    ☐ \$100,000,000-\$499,999,999 125-9  
☐ \$1,000,000-\$3,999,999 125-4    ☐ \$500,000,000-\$999,999,999 125-10  
☐ \$4,000,000-\$9,999,999 125-5    ☐ \$1,000,000,000 or more 125-11  
☐ \$10,000,000-\$24,999,999 125-6

**14. Type of company:**

- ☐ Construction 126-1    ☐ Wholesale 126-5  
☐ Manufacturing 126-2    ☐ Retail 126-6  
☐ Agribusiness/forestry/fisheries/mining 126-3    ☐ Finance/insurance/real estate 126-7  
☐ Transportation/public utility/telecommunications 126-4    ☐ Service 126-8  
☐ Other 126-9

**15. Title/position (Please specify CEO, president, division manager, etc.)**

\_\_\_\_\_ 127-128

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# Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

## 1 Will You Ever Collect Social Security?

Several times in recent years Congress and the White House have worked out plans designed to ensure the financial integrity of the Social Security system. Both the tax rate and amount of income taxed for Social Security have risen sharply under these plans, with further increases scheduled. However, many have expressed concern about the long-term strength of the system. Do you think you will ever collect Social Security retirement benefits?

## 2 Reagan Or Mondale For President?

Many of the presidential campaign themes have become clear as Walter Mondale and Geraldine Ferraro challenge Ronald Reagan and George Bush. The Democrats have promised to raise taxes; the President says he opposes tax increases. The Republicans advocate assisting anti-Communists in Latin America; the challengers fear another Vietnam. The tickets disagree over where to cut the budget. Will you vote to re-elect the Reagan administration?

## 3 Bonus Pay For the Best Teachers?

Concerned by declines in educational achievement tests, some states have begun rewarding outstanding teacher performance, with those with the highest evaluations getting pay supplements. Tests of teachers' knowledge and students' test scores are among criteria being used. Critics have said that all teachers should get raises and that evaluating teachers' performances is nearly impossible. Should selected teachers get bonus pay for high performance?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

## Verdicts On Training, Sunset, Tax Amnesty

More than 1,300 readers responded to the questions in the July issue's Where I Stand poll. Results of each monthly poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
<b>1</b> Should employers have to pay into individual training accounts?	14.3%	80.2%	5.5%
<b>2</b> Should the federal government establish a tax amnesty program?	40.1	51.0	8.9
<b>3</b> Should the federal government enact a broad sunset law?	84.9	8.9	6.2



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# Zeros Can Multiply Your Money

By Ray Brady

**C**HARLES GRAY—he does not want his real name used—is a professional money manager who handles the investing of millions of his clients' dollars, along with some of his own, in stocks and bonds.

Gray's firm has no pension plan. So he has a Keogh plan to take care of his retirement. In it, as Gray tells his clients, he puts no stocks or ordinary bonds. He confines his Keogh investment to zero coupon government bonds.

Adrian Massie, Jr., managing director of the investment firm of Salomon Brothers, estimates that zeros with a face value of \$40 billion have been sold since 1982, even though Congress then eliminated a tax advantage for holders of such bonds that had contributed heavily to a rise in their popularity a few years earlier. Some authorities put the figure even higher.

Though as much as 85 percent of the bonds have been sold to big institutional investors, and you can strain your brain trying to understand how zeros pile up wealth for you, a lot of individuals are turning to them.

Says Norbert "Bud" Doyle at the investment firm of Thomson McKinnon: "Give me \$2,000, and I'll give you somewhere around \$20,000 in 20 years—and with absolute safety."

It is a catchy statement. As in the case of most investments, however, zero coupons are more suited to some investors than others. They work best for those who have some kind of tax-benefit investment plan—such as a Keogh like Charles Gray's or an Individual Retirement Account.

**T**HERE ARE ZERO COUPONS in corporate bonds and some other types of bonds as well, but in this article we are talking basically about T-bonds—Treasury bonds, issued by the U.S. government.

A zero bond is an artificial product, created by Wall Street brokerage houses. Brokers strip off the coupons that the bondholder cashes in to obtain interest and then sell the bond at a deep discount.

The investor will pay about \$190 for a \$1,000 face value bond yielding 12 per-

cent and maturing in 1998. If the bond matures—comes due—later than that, the price will be correspondingly lower (say, \$54.75 for a unit maturing in 2009). The investor receives no regular interest payment.

A simple explanation of a zero is almost impossible. Bond trader Tom Wittschen says to think of it this way:

If you bought a 20-year zero maturing in 2004 and paying 13 percent interest—a recent rate—you would put up \$85 for every \$1,000 of face value of the bond.

At the end of the first year, interest earned has pushed its value to \$96.05.

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**"Give me \$2,000,  
and I'll give you  
around \$20,000  
in 20 years..."**

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By year three, the figure is up to \$122.36.

By the end of the 19th year, the investment is worth \$870. In the final year, the interest is \$130, and the holder gets the bond's full value—\$1,000. "You get your money," says Bud Doyle, "and you don't have to worry about anything along the way."

Bud Doyle oversimplifies. You do have to worry about some things—and one of them is taxes.

The federal government took a close look at what was being done with its bonds, and that led to congressional action in 1982 that made the interest accumulating on zeros taxable, year by year.

Until then, tax was not due on the interest until a zero matured or its holder sold it—meaning investors could pick maturity dates or time sales so that they fell in periods when the investors' taxable income was low, for whatever reason. (The tax was at regular, rather than capital gains, rates before 1982, and it still is.)

Congress' action is why the bonds are best used in Keoghs, IRAs or any other plan where you pay no tax until you take the money out. Many executives, switching companies, have sizable chunks of profit-sharing money

from the firms they are leaving. Such funds can be rolled over into an IRA made up of zero coupon bonds. The executive can pick a bond maturing in 5, 10, 20 or other number of years that bring him up to the date on which he expects to retire.

**S**OME EXECUTIVES are putting zeros in the \$2,000-a-year-maximum IRAs that every wage earner is now allowed. But, says Bud Doyle, "the average sum going into a zero coupon IRA in a given year runs to about \$6,000."

Zeros can also be helpful in getting over that big hurdle of financing children's college educations. First, estimate the annual cost of college, then buy zeros that will mature in each college year. The zeros, naturally, should be put in the child's name, to minimize the tax that has to be paid on the yearly return.

One thing to be careful of: the price you pay for a zero.

Bond dealers make their money not on commissions like stockbrokers, but on the spread—the difference between the bid and asked prices of the bond they are dealing in.

That difference can be considerable. And since it is often difficult to check out the exact spread, the wise investor will get prices on a zero from two or three brokers. Or he will deal with a broker he knows well and trusts.

What if you get strapped and need the money you have invested in a zero? There is an active market for zeros, so the investor can always sell.

The investor must realize, though, that if interest rates rise, bond prices fall—and the zero will lose some of its worth. If the investor wants to sell at that time to invest in something with a higher yield, he will be doing so at a point in which the zero's value will be down.

On the other hand, if interest rates drop, the investor with the zero continues getting a fat return, and if he does sell it he will rack up a gain because its value rises as interest rates fall.

In a period when many people have been pessimistic about the stock market, the zero has been one of the fastest growing investment mechanisms around. The above should give you a good idea of why. □

RAY BRADY is the business correspondent for CBS News.



# A Plan for All Seasons

Jon Huntsman molds time like a master as he serves company, family and church.

By Del Marth

**L**UNCH IS NOT Jon M. Huntsman's concept of maximizing time. He often skips it, preferring to work through the noon hour exploring opportunities in the free enterprise system.

Use time to the fullest, is his credo.

"When I was a boy, I wanted to be a builder of American businesses," he says. Today, at age 47, he is president, chairman and owner of Huntsman Chemical Corporation, a polystyrene manufacturer headquartered in Salt Lake City. And he is still building.

Revenues in 1983-84 were \$240 million; in a few more years, Huntsman promises, they will be \$2 billion to \$3 billion. On the basis of his past performance, he can be expected to keep that promise.

"I maximize my entire time by focusing on three things in life," Huntsman says. "My business, my family and my church work. You have to be well organized, to avoid going off on tangents."

It is doubtful he has ever gone off on one. His career reads like a railroad timetable, timed down to the minute of arrival and departure.

Purposefulness is part of Jon Huntsman's heritage. He is a highly active member of the Church of Jesus Christ of Latter-Day Saints—his family came to Utah in 1847 with the first Mormon wagon train—and lifelong purposes are important to Mormons. Huntsman has methodically designed his business career.

After four years at Wharton School of the University of Pennsylvania in Philadelphia and two years in the Navy, Huntsman, at age 24, picked his first job with great care:

"I analyzed where I could get the best background to solidify my goal in learning business. I decided on a medium-sized business, one with \$30 million to \$50 million sales a year, a basic business like food."

He signed on in 1961 as a trainee at Olson Farms, Inc., a major egg producer. After five years, he had become the Los Angeles firm's executive vice president.

A problem with egg cartons at Olson's introduced Huntsman to polystyrene, an oil derivative used today in

plastic packaging in appliances, toys, hardware, food and electronics.

"Consumers in the 1970s bought eggs in pulp containers," he says. "The containers leaked, and they broke. We began experimenting with polystyrene, trying to make a soft, liquid-resistant foam container."

The experiments led to a merger in 1965 of Olson's packaging division with

Dow Chemical's packaging division. But the new firm, Dolco Packaging Corporation, faltered under technical people who knew little about marketing.

Huntsman, put in as Dolco president in 1967, quickly made the necessary changes. The 30-year-old executive moved out "all the engineers and technical people and moved in a group of

Despite Jon Huntsman's interest in politics—he spent a year in the White House—he finds "the excitement and thrill of business" more appealing.

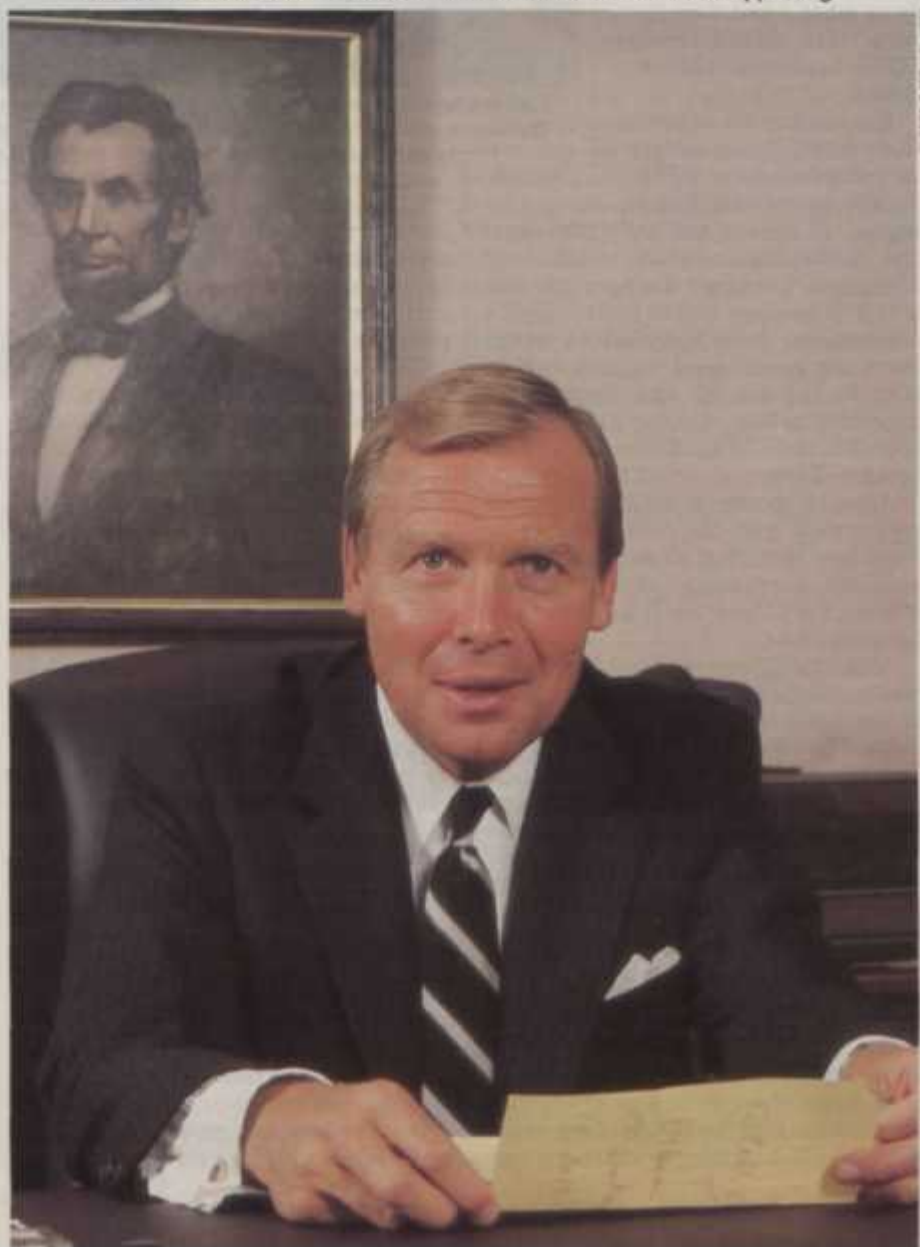


PHOTO: T. MICHAEL KEZIA



bright young men who didn't know it couldn't be done.

"By the time I left in 1970 we had a smoothly running business, had introduced polystyrene egg cartons to America and had 30 percent of the market."

Huntsman figured he was right on schedule: "After almost a decade in this type of industry, I felt comfortable knowing how to run a business. I felt it was time to move out on my own."

But government, not business, singled him out.

Roland Rich Woolley, a California attorney close to the Nixon administration, recommended Huntsman to White House aides. An invitation soon came from Elliot L. Richardson, Health, Education and Welfare Secretary.

"I was enticed," says Huntsman, "because the position was so different from what I had done before." He signed on as HEW associate administrator.

But his dreams of roles in corporate America were not shunted to a siding. Before he left for Washington, 13 friends and associates from the packaging industry established Huntsman Container Corporation with a \$1.3 million investment and received a commitment from him that he would leave the government by 1972 and return to become the new firm's chief executive officer. Of the \$1.3 million, \$300,000 came from Huntsman and his brother, Blaine.

After six months at HEW, Huntsman was moved into the White House as President Nixon's staff secretary. That was not surprising, says Terry R. Parker, for 11 years a Huntsman business associate.

"Jon has a tremendous ability to motivate people. And he is inspirational. He can still set a fire under me, keep me and the organization going."

**I**N 1971 Huntsman Container Corporation needed a fire under it. It was not making money. The investors beckoned Huntsman, who was finishing his first year at the White House.

President Nixon got Huntsman's resignation, and Huntsman Container got its CEO.

Huntsman remains on the fringes of politics. He and Sen. Jake Garn (R-Utah) are Utah's Reagan-Bush cochairmen. Some of his associates are certain Huntsman will be Utah's governor someday. Meanwhile, he keeps his con-

tacts in Washington, where he is on the U.S. Chamber of Commerce board of directors.

"But, frankly," Huntsman says, "the excitement and thrill of business far exceed the corresponding benefits of full-time public service."

Huntsman Container in 1972 was fighting for survival. But the CEO assured his investors, he says, that he "wouldn't go back to the well-head for more money." He created the Big Mac



Like his father, Jon Huntsman, Jr., shown here with his sister Christena, worked in the White House. But he recently joined Huntsman Chemical as its director of public affairs.

container for McDonald's, he built polystyrene plants in Europe and Australia to provide packaging when fast food chains moved overseas, he bartered products for raw materials during the 1973-74 oil crisis.

"When you are struggling and need to legitimately come up with some money," he says, "a man's mind can be brilliant."

Huntsman's enterprise not only put the container corporation in the black, but he also succeeded in attracting buyers. He and the other original investors sold their interests for \$34 million.

A wealthy man, Huntsman turned to his church work. He was asked to be president of the Mormon mission in Washington. It was a three-year assignment, during which he and his family (wife Karen and nine children) "directed missionaries, opened new churches and converted 4,000 people to our faith."

The work was rewarding and familiar, for Huntsman has always devoted as much time to the church as to business. The Mormon Temple in Salt Lake City is only a block from his corporate office on the fifth floor of a shopping mall/office building complex.

"Tuesday, Wednesday and Thursday nights I work at the church," he says. "And Sundays are most productive. I leave home at 6:15 a.m. and return at

10:30 p.m. after 15 hours of straight church work."

Says Jack Calton, Huntsman's chief finance officer: "You never met a more organized man."

**S**O ORGANIZED, in fact, that 10 months before his Washington church assignment ended in July, 1983, Huntsman was putting together another polystyrene business. He bought Shell Oil Company's national polystyrene division, then acquired Shell's Carrington, England, plant and an independent polystyrene plant in Belpre, Ohio.

When his church assignment ended, he was sole owner of Huntsman Chemical Corporation. "It has taken me 25 years" to get his own business but, he says, "you kind of do things in bits and pieces. You don't start right out as your own boss."

"You build and develop and create friends in banking, in production, in marketing—and you put them all together."

Huntsman runs his plants at 96 to 100 percent capacity. He believes there is a "niche for tightly run, tightly managed companies that have a firm control on costs, that keep overheads down, that are marketing-oriented."

Says Terry Parker, who is Huntsman Chemical's senior vice president: "Jon's a great concept person. He has that unique ability to conceive something and then implement it. Most executives can do only one or the other."

Poorly managed businesses with profit potential do not escape Huntsman's entrepreneurial eye. He recently acquired Utah-based Olympus Oil Company and Prospector Square, the latter a hotel/resort center in Utah's mountains. He has transformed both into profitable enterprises: The oil firm has annual sales of \$30 million, the resort, \$7 million.

Despite his outstanding record as an entrepreneur, Huntsman boasts of no unusual insight, no formula for succeeding in business. Yet co-workers marvel at his grasp of every facet, every minute of his waking hours.

Huntsman says that those three things he focuses on in life—business, family, church—"all require the same administrative skills. They all require relating to people, letting them have authority and responsibility."

And, above all, he says, "maximizing time."





## What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	Potential Impact On Business	Contact And Business Message
APPROPRIATIONS	Both houses of Congress must agree on spending amounts for each of the 13 regular appropriation bills before the anticipated October adjournment. Cost of election-eve pork barrel programs will be paid in borrowed money.	Members of the House and Senate: Keep your promise to the people by following through on your pledge to cut the budget deficit. Do this by cutting spending in the appropriate bills, not by raising taxes.
YOUTH DIFFERENTIAL	Allowing business to hire new teen-age employees at a reduced minimum wage for summer work would lower unemployment and allow youngsters to begin building a solid employment record.	Members of the House and Senate: Give teen-agers a better chance to find a summer job by allowing business the opportunity to hire them at a slightly reduced wage.
EXPORT ADMINISTRATION ACT	The year's most important foreign trade bill may not become public law due to the inability of Congress to agree on key provisions. If so, our balance of payments problem will worsen.	Members of the House and Senate: The contract sanctity provisions passed by the Senate and the licensing provisions adopted by the House should be included in the final bill.
SUPERFUND	Election-year pressures could force Congress into hasty and misconceived reauthorization of a law not due to expire until September, 1985. Throwing more money at the problem without adequate research solves nothing.	Members of the Senate: Congress should wait until EPA completes key studies before shaping a reauthorization package. Insist on systematic and efficient use of every dollar appropriated.
DOMESTIC CONTENT	Foreign nations are expected to retaliate immediately if this type of protectionist measure becomes law. Unemployment would rise, foreign contracts would be lost, and our trade deficit would increase.	Members of the Senate: The House made a mistake and adopted similar legislation; do not follow its lead. Enactment would set a bad precedent, cost more than potential gain.
PRODUCT LIABILITY	Ambiguities within current law have led to expensive court suits and, therefore, higher product costs to consumers. Passage of a law setting clear standards would benefit all.	Members of the Senate: It is urgent that uniform product liability legislation setting clear standards be adopted before congressional adjournment.
BALANCED-BUDGET AMENDMENT	Congress has an opportunity and obligation not to spend more money than it receives and not to raise taxes unnecessarily. A constitutional amendment would ensure this to be the case.	Members of the House and Senate: Support a balanced-budget and tax limitation constitutional amendment that would force all branches of government to live within their means.
CONTRACTING OUT	Amendments restricting the involvement of the private sector in government contracting will be offered to many appropriation bills and result in higher costs to the taxpayer.	Members of the House and Senate: Contracting out to the private sector the supplying of goods and services will yield a better product and save money for the government.



## Reducing the Deficit: There's a Better Way

Much of the 1984 election debate has centered on tax increases to reduce the federal deficit. The emphasis, however, should be on spending cuts, and business people have a rare opportunity to help put it there.

They can do so by urging that their members of the House of Representatives join a movement to force House Democratic leaders to allow a vote on a constitutional amendment requiring a balanced budget.

If a majority of House members sign a discharge petition now being circulated, the leaders would have to bring the amendment to the floor. Since the necessary number of members of the Senate are on record in favor of the amendment, House approval would guarantee that it would be sent to the states for ratification.

The amendment failed by 46 votes when it last came up in the House in 1982, and opponents of bringing it to the floor again say prospects for success would be no better this time. But Democrats who opposed the amendment two years ago may well have second thoughts if required to vote on the issue just before the election.

With the head of their ticket championing tax increases as the only means of reducing the federal deficit, many Democratic members of the House might welcome an opportunity to support a more politically popular form of fiscal discipline.

## Giving Minorities A Helping "Hand"

Adam Smith wrote more than 200 years ago that entrepreneurs who set out to serve only their own interests were often guided by an "invisible hand" into serving the general good.

That process continues to work. One manifestation is described in this month's cover article, "The Great Franchise Boom" (page 20).

The principal goal of franchisors, of course, is to increase their revenues through increasing the number of their franchisees. That is the way franchising is supposed to work.

But it has produced a bonus that benefits society generally. Franchising has opened op-

portunities to members of minority groups who would not otherwise be able to start their own businesses.

Such individuals often lack the managerial know-how and access to capital required to launch an independent business. The franchise system provides extensive training and guidance as well as help in getting funds.

As the article points out, fledgling entrepreneurs find that acquiring a franchise can be a way of going it alone without being alone.

That arrangement is further proof that opportunities for economic progress, not government handouts, offer members of minority groups the most realistic prospect for achieving their goals.

## A Discouraging Signal On Entitlement Reform

Social Security remains one of the most sensitive political issues, given the vast number of voters that it affects directly and indirectly.

It is no surprise, therefore, that Congress and the administration are preparing to ensure that beneficiaries of the program will receive a cost-of-living increase next January 1. The increase would be paid regardless of whether the consumer price index shows the minimum 3 percent gain required under present law for an automatic boost in payments.

There is to be an official determination next month of whether the index reached the 3 percent trigger point in a 12-month period. If it did not, there would have to be an announcement that there would be no boost in Social Security benefits. Concern over political consequences of such an announcement triggered the movement to guarantee an increase.

Supporters of the plan argue that, inasmuch as cost-of-living adjustments are cumulative, a 1983-84 price increase that was under 3 percent would have been reflected in 1986 checks, anyway. So, they maintain, the new payment boost really is not adding significantly to costs. That view may be technically correct. But the episode offers little encouragement to those who believe that moderating cost-of-living adjustments in federal entitlement programs—programs that account for 43 percent of the budget—is an essential step toward bringing spending and deficits under control. □

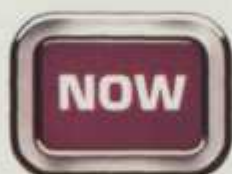


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**A 9-POUND COMPUTER.**

## **THE PORTABLE.**

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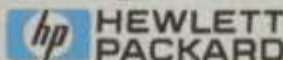
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